LINDSAY CITY COUNCIL
REGULAR MEETING AGENDA

February 25, 2025, 6:00 P.M.
City Hall, 251 E. Honolulu St., Lindsay, CA 93247

Mayor
Misty Villarreal
Mayor Pro Tem
Yolanda Flores
Councilmembers
Adriana Nave
Rosaena Sanchez
Joe Soria

Notice is hereby given that the Lindsay City Council will hold a Regular Meeting on Tuesday, February 25, 2025 at 6:00 p.m. in person and live via YouTube.

City of Lindsay YouTube Channel: https://www.youtube.com/@CityofLindsay

Se anima a los hispanohablantes a asistir a las próximas reuniones del Concejo Municipal de Lindsay. Para traducción al español, comuníquese con la oficina de la Secretaria Municipal por teléfono, (559) 562-7102 ext. 8034, o regístrese unos minutos antes en el momento de la reunión del Consejo.

Rules for Addressing the City Council:

- Members of the public may address the City Council on matters within the jurisdiction of the City of Lindsay.
- Persons wishing to address Council concerning an item on the agenda will be invited to address the Council during the time that Council is considering that agenda item. Persons wishing to address Council concerning issues not on the agenda will be invited to address Council during the Public Comment portion of the meeting.
- When invited by the Mayor to speak, please step up to the lectern, state your name and city of residence, and make your comments. Comments are limited to three minutes per speaker.

Americans with Disabilities Act

Pursuant to the Americans with Disabilities Act, persons with disabilities who may need assistance should contact the City Clerk prior to the meeting at (559) 562-7102 ext. 8034 or via email at mpeton@lindsay.ca.us.

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1. **CALL TO ORDER**
2. **INVOCATION –** Led by Minister Frances Bower.
3. **PLEDGE OF ALLEGIANCE –** Led by Councilmember Soria.
4. **ROLL CALL**
5. **APPROVAL OF AGENDA**
6. **PUBLIC COMMENT –** The public is invited to comment on any subject under the jurisdiction of the Lindsay City Council. Please note that speakers that wish to comment on a Regular Item or Public Hearing on tonight's agenda will have an opportunity to speak when public comment for that item is requested by the Mayor. Comments shall be limited to three (3) minutes per person, with thirty (30) minutes for the total comment period, unless otherwise indicated by the Mayor. The public may also choose to submit a comment before the meeting via email. Public comments received via email will be distributed to the Council prior to the start of the meeting and incorporated into the official minutes; however, they will not be read aloud. Under state law, matters presented under public comment cannot be acted upon by the Council at this time.
7. **COUNCIL REPORT**
8. **STAFF UPDATES** – City Services, Finance, Human Resources, Public Safety, Recreation Services
9. **CITY MANAGER REPORT**

10. **CONSENT CALENDAR –** Routine items approved in one motion unless an item is pulled for discussion. There will be no separate discussion of these matters unless a request is made, in which event the item will be removed from the Consent Calendar to be discussed and voted upon by a separate motion.

10.1 Waive the Reading of Ordinance and Approve by Title Only.
Action & Recommendation: Approve the reading by title only of all ordinances and that further reading of such ordinances be waived.
Submitted by: Maegan Peton, City Clerk

10.2 Minutes of the Regular and/or Special Meeting of February 11, 2025.
Action & Recommendation: Approve as submitted.
Submitted by: Maegan Peton, City Clerk

10.3 Warrant List for February 3, 2025 Through February 16, 2025.
Action & Recommendation: Accept the Warrant List for transactions dated February 3, 2025, through February 16, 2025.
Submitted by: Lacy Meneses, Director of Finance

10.4 Letter of Support for Tulare County's RTAP Application for the Orange Belt Corridor Safety Study.
Action & Recommendation: Authorize the City Manager to sign a letter of support for the Tulare County Resource Management Agency's (RMA) application for the "Orange Belt Corridor Safety Feasibility Study" project to the U.S. Department of Transportation's Rural and Tribal Assistance Program (RTAP).
Submitted by: Daymon Qualls, City Manager

10.5 Agency Agreement with C21 Commercial (Jared Ennis / Kevin Land) for the Sale and/or Lease of City-Owned Properties.
Action & Recommendation: Authorize the City Manager to sign the attached agency agreement with C21 Commercial (Jared Ennis / Kevin Land) for the sale and/or lease of City-owned properties located at 116 / 190 S Elmwood Ave, 100 / 112 E Honolulu St, Lindsay, CA 93247.
Submitted by: Daymon Qualls, City Manager

11. **ACTION ITEMS**

11.1 Corrective Action Plan in Response to State Auditor Report 2024-801.
Action & Recommendation: Approve Resolution 25-05, adopting the City of Lindsay Corrective Action Plan in response to State Auditor Report 2024-801.
Submitted by: Lacy Meneses, Director of Finance

11.2 Lindsay Economic Development Committee Member Selection.
Action & Recommendation: Select two applicants to serve as Committee Members for the immediate vacancies on the Lindsay Economic Development Committee.
Submitted by: Maegan Peton, City Clerk and Assistant to the City Manager

12. **DISCUSSION ITEMS**

12.1 Update on Development Projects and Water Infrastructure.
Action & Recommendation: Receive updates on current City development projects and water infrastructure projects.
Submitted by: Daymon Qualls, City Manager

13. **REQUEST FOR FUTURE ITEMS**

14. EXECUTIVE (CLOSED) SESSION

14.1 Conference with Legal Counsel – Existing Litigation (§ 54956.9)
Name of Case: Carrillo v. City of Lindsay, Case No. VCU306195

14.2 Conference with Labor Negotiators (§ 54957.6)
Agency Designated Representative: Daymon Qualls, City Manager
Employee Organization(s): LPOA; SEIU

15. ADJOURNMENT – Lindsay City Council meetings are held in the City Council Chambers at 251 E. Honolulu Street in Lindsay, California beginning at 6:00 P.M. on the second and fourth Tuesday of every month unless otherwise noticed. Materials related to an Agenda item submitted to the legislative body after distribution of the Agenda Packet are available for public inspection in the office of the City Clerk during normal business hours. A complete agenda is available at www.lindsay.ca.us. In compliance with the Americans with Disabilities Act & Ralph M. Brown Act, if you need special assistance to participate in this meeting, or to be able to access this agenda and documents in the agenda packet, please contact the office of the City Clerk at (559) 562-7102 x 8034. Notification prior to the meeting will enable the City to ensure accessibility to this meeting and/or provision of an alternative format of the agenda and documents in the agenda packet.

AFFIDAVIT OF POSTING AGENDA

I hereby certify, in conformance with Government Code Sections 54954.2 and 54956, this agenda was posted in the bulletin board at the front of City Hall, 251 E Honolulu St., as well as on the City of Linday's website (www.lindsay.ca.us).

DATE & TIME POSTED: Thursday, February 20, 2025 at 2:00 p.m.

Maegan Peton

Maegan Peton, City Clerk

LINDSAY CITY COUNCIL
REGULAR MEETING MINUTES

Lindsay Council Chambers
251 E Honolulu St., Lindsay CA 93247

Tuesday, February 11, 2025
6:00 p.m. – Regular Meeting

Proper notice of this meeting was given pursuant to Government Code Section 54954.2 and 54956.

STAFF PRESENT: City Manager Daymon Qualls, City Attorney Megan Crouch, City Clerk Maegan Peton, Director of Public Safety Rob Moore, Acting Human Resources Manager Lance Rowell, Director of Finance Lacy Meneses, Director of Recreation Services Armando da Silva, Acting City Services Director Ryan Heinks, Administrative Supervisor Marshall Chairez

6:00 p.m. – REGULAR MEETING

1. CALL TO ORDER

Mayor Villarreal called to order the regular meeting of the Lindsay City Council at 6:00 p.m. in the Council Chamber located at 251 E. Honolulu St.

2. INVOCATION

Council chose to skip this portion of the agenda.

3. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mayor Pro Tem Flores.

4. ROLL CALL

Council Present: Mayor Villarreal
Mayor Pro Tem Flores
Councilmember Nave
Councilmember Soria

Council Absent: Councilmember Sanchez (with notice)

5. APPROVAL OF AGENDA

It was motioned by Councilmember Soria, seconded by Councilmember Nave, and carried 4 to 0 (Councilmember Sanchez absent) to approve the agenda.

6. PUBLIC COMMENT

Lindsay High School Student Jessica Lemus provided updates for the Council on recent school activities and events.

Josh Flowers with the Blessings of Liberty, provided comment related to his concern of the City's financials and requested the City declare an Economic State of Emergency. He provided an example Resolution for Council and staff review.

7. COUNCIL REPORT

Councilmember Soria reported he attended a ride-along with Corporal Adam Romero, the Chamber Awards, the Delores Huerta meeting, First Friday Coffee, and he visited the Skatepark.

Mayor Pro Tem Flores reported that she attended the Chamber Awards. She also commended Lieutenant Nave for being awarded Man of the Year at the Chamber Awards.

Councilmember Nave reported that she attended the Chamber awards, the Lindsay High School Football Banquet, the First Friday Coffee Talk, and Tacos on the lawn. She also encouraged the public to support the local girl scouts.

Mayor Villarreal reported that she attended the Healthy Kids, Healthy Lindsay meeting, the Lindsay High School Football Banquet, the Chamber Awards, the First Friday Coffee Talk, and the Taco Luncheon. She also encouraged the public to attend the basketball game for Lindsay Alt. Ed. versus Citrus High School.

8. STAFF UPDATES

City staff provided departmental updates to Council.

9. CITY MANAGER REPORT

The City Manager reported on recent events and items of interest.

10. PRESENTATIONS

10.1 Ono Sister City Committee Overview
Lorena Leon and Laura Cortez, Committee Members, provided a presentation for Council review.

11. CONSENT CALENDAR
It was motioned by Councilmember Nave, seconded by Councilmember Soria and carried 4 to 0 (Councilmember Sanchez absent) to approve the items on the Consent Calendar as presented.

11.1 Waive the Reading of Ordinance and Approve by Title Only.
Action & Recommendation: Approve the reading by title only of all ordinances and that further reading of such ordinances be waived.

11.2 Minutes of the regular and/or special Meeting of January 28, 2025.
Action & Recommendation: Approve as submitted.
Submitted by: Maegan Peton, City Clerk

11.3 Warrant List for January 20, 2025 through February 2, 2025.
Action & Recommendation: Accept the Warrant List for transaction dates of January 20, 2025 through February 2, 2025.
Submitted by: Lacy Meneses, Director of Finance

11.4 January 2025 Treasurer's Report.
Action & Recommendation: Accept the January 2025 Monthly Treasurer's Report.
Submitted by: Lacy Meneses, Director of Finance

11.5 Fee Waiver Request – Lindsay Ono Sister City Program.
Action & Recommendation: Approve the request from the Lindsy Ono Sister City Committee to waive the facility rental fees for their monthly planning meetings at the Lindsay Wellness Center and for their annual fundraiser on April 5th, 2025.
Submitted by: Daymon Qualls, City Manager

12. ACTION ITEMS

12.1 Amendment of the Lindsay Economic Development Committee Bylaws.
Action & Recommendation: Approve Resolution 25-04 amending the bylaws for the Lindsay Economic Development Committee.
Submitted by: Maegan Peton, City Clerk and Assistant to the City Manager
Public Comment: There were no public comments.
Council Action: It was motioned by Councilmember Soria , seconded by Mayor Villarreal, and carried 4 to 0 (Councilmember Sanchez absent) to approve Resolution 25-04 amending the bylaws for the Lindsay Economic Development Committee.

13. DISCUSSION ITEMS

13.1 City Contributions to Community Events.
Action & Recommendation: Discuss potential direct monetary contributions to community events and consider establishing a formal policy whereby each Council member is allocated an annual amount of $1,200 from existing Community Events funds.
Staff recommends that the City Council:

- Engage in a discussion regarding the merits and feasibility of direct contributions to community events.
- Consider adopting the proposed policy that allocates $1,200 per Council member, per fiscal year, to be used solely for community events that provide a clearly defined public benefit.

Provide guidance to staff on implementing a transparent process for documenting, approving, and reporting each expenditure, ensuring adherence to California law governing gifts of public funds.
Submitted by: Daymon Qualls, City Manager
Public Comment: There were no public comments.
Council Action: Council directed staff to table this discussion to a later date.

14. EXECUTIVE (CLOSED) SESSION

Council recessed to closed session at 6:58 p.m.

14.1 Conference with Real Property Negotiators (§ 54956.8)
Property: 205-236-013; 205-236-014; 205-236-022; 205-236-020
Agency Negotiation: Daymon Qualls, City Manager
Negotiating Parties: Kristar Development, LLC
Under Negotiation: Price, terms of payment

14.2 Conference with Labor Negotiators (§ 54957.6)
Agency Designated Representative: Daymon Qualls, City Manager
Employee Organization(s): LPOA; SEIU

Council reconvened from closed session at 7:24 p.m.

EXECUTIVE (CLOSED) SESSION REPORT

Mayor Villarreal advised there was no reportable action.

15. REQUEST FOR FUTURE ITEMS

Mayor Pro Tem Flores requested an update from local developers.

Mayor Villarreal inquired about the roosters and chickens in City limits and Acting City Services Director Ryan Heinks advised he would send over the municipal code.

Councilmember Soria requested an update on animal control services for the City.

16. ADJOURNMENT

The regular meeting was adjourned at 7:28 p.m.

Approved by Council: February 25, 2025.

____
Misty Villarreal, Mayor

ATTEST:

____
Maegan Peton, City Clerk

The next Regular Meeting of the Lindsay City Council is scheduled to be held on February 25, 2025***.***

STAFF REPORT

Item #: 10.3
Consent

TO: Lindsay City Council
MEETING DATE: February 25, 2025

DEPARTMENT: Finance

FROM: Lacy Meneses, Director of Finance

AGENDA TITLE: Warrant List for February 3, 2025, through February 16, 2025

ACTION & RECOMMENDATION
Accept the Warrant List for transactions dated February 3, 2025, through February 16, 2025.

BACKGROUND | ANALYSIS
The Warrant List for February 3, 2025, through February 16, 2025, is submitted for Council review and acceptance.

FISCAL IMPACT
There is no fiscal impact associated with this action.

ATTACHMENTS
1. Warrant List

Reviewed/Approved:

CITY OF LINDSAY | WARRANT LIST
TRANSACTION DATES: 2/3/2025 THROUGH 2/16/2025

Check#	Fund	Date	Vendor #	Vendor Name	Description	Amount
27384						**$491.00**
	779 - 00-HOME-0487	02/03/25	5644	AMERICAN BANKERS IN	L97-14	491
27385						**$799.00**
	779 - 00-HOME-0487	02/03/25	7303	AMERICAN MODERN PRO	POL 104835798	799
27386						**$5,619.67**
	552 - WATER	02/03/25	6630	AQUA-METRIC SALES,	WATER METERS	5619.67
27387						**$20.00**
	781 - CAL HOME RLF	02/03/25	2623	COUNTY CLERK TULARE	LIEN RELEASES	20
27388						**$40.00**
	702 - CHFA-HELP LHBP	02/03/25	2623	COUNTY CLERK TULARE	LIEN RELEASES L98-1	40
27389						**$463.63**
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249 HR 11.30.24	18.5
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249-HR 10.31.24	18.25
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL DEC2024	18.75
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL JAN2024	26
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249 CM 11.30.24	17.5
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249-CM 10.31.24	18.25
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL DEC2024	17.75
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL JAN2024	26
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249 FD 11.30.24	19.5
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249-F.D 10.31.24	49
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL DEC2024	12
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL JAN2024	35.25
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	53249 FCHARGE 11302	1.12
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL DEC2024	1.97
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CITY HALL JAN2024	2.72
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	DEC2024 P.S 55962	161.57
	101 - GENERAL FUND	02/03/25	102	CULLIGAN	CS DEC WATER	11
	553 - SEWER	02/03/25	102	CULLIGAN	CS DEC WATER	8.5
27390						**$2,233.00**
	779 - 00-HOME-0487	02/03/25	6084	FARMERS INSURANCE E	POL L9798-23 / 9197	2233
27391						**$1,258.84**
	261 - GAS TAX FUND	02/03/25	6550	MARIO SAGREDO ELECT	INV 3671	1258.84
27392						**$6,500.00**
	552 - WATER	02/03/25	6095	RALPH GUTIERREZ WAT	CPO WATER TRMT WSTE	3250
	553 - SEWER	02/03/25	6095	RALPH GUTIERREZ WAT	CPO WATER TRMT WSTE	3250
27393						**$6,500.00**
	552 - WATER	02/03/25	6095	RALPH GUTIERREZ WAT	CPO WATER-JAN 2025	3250
	553 - SEWER	02/03/25	6095	RALPH GUTIERREZ WAT	CPO WASTEWATER JAN2	3250
27394						**$12,210.54**
	552 - WATER	02/03/25	4555	THATCHER COMPANY IN	INV 2024250107028	12210.54
27395						**$1,231.50**
	779 - 00-HOME-0487	02/03/25	1400	STATE FARM	POL L204-02	1231.5
27396						**$4,800.00**
	300 - MCDERMONT SALE PROCEEDS	02/03/25	7244	TIERRA CONSTRUCTION	INV 2023-571	4800
27398						**$52.22**
	552 - WATER	02/07/25	007	AG IRRIGATION SALES	INV 18967	52.22
27399						**$250.00**
	400 - WELLNESS CENTER	02/07/25	5819	ANITA GUTIERREZ	DEC ZUMBA LWC	250
27400						**$446.00**
	400 - WELLNESS CENTER	02/07/25	4796	BROADCAST MUSIC, IN	BILL#57129311	446
27401						**$1,838.84**
	101 - GENERAL FUND	02/07/25	1195	CARROT TOP INDUSTRI	FLAGS	1838.84
27402						**$454.30**
	101 - GENERAL FUND	02/07/25	076	CENTRAL VALLEY BUSI	SORIA, NAVE BUSINES	454.3
27403						**$2,772.00**
	101 - GENERAL FUND	02/07/25	6963	CIVICPLUS LLC	MUNICODE	2772
27404						**$91.93**
	101 - GENERAL FUND	02/07/25	102	CULLIGAN	CS NOV WATER	10.5
	400 - WELLNESS CENTER	02/07/25	102	CULLIGAN	LWC DEC WATER	24.42
	400 - WELLNESS CENTER	02/07/25	102	CULLIGAN	LWC JAN WATER	8.88
	400 - WELLNESS CENTER	02/07/25	102	CULLIGAN	LWC NOV WATER	39.5
	553 - SEWER	02/07/25	102	CULLIGAN	CS NOV WATER	8.63
27405						**$143.27**
	101 - GENERAL FUND	02/07/25	102	CULLIGAN	PS NOV WATER	143.27
27406						**$867.41**
	101 - GENERAL FUND	02/07/25	119	DOUG DELEO WELDING	INV 24-1539	867.41
27407						**$76.14**
	101 - GENERAL FUND	02/07/25	3218	FARMERS TRACTOR & E	60" KUBOTA BLADES	76.14
27408						**$73.18**
	101 - GENERAL FUND	02/07/25	1450	FRESNO OXYGEN & WEL	DOXMED	73.18
27409						**$1,514.41**
	101 - GENERAL FUND	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	376.54
	101 - GENERAL FUND	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	27.07
	101 - GENERAL FUND	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	2.99
	552 - WATER	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	425.46

	553 - SEWER	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	639.12
	553 - SEWER	02/07/25	6010	FRONTIER COMMUNICAT	NOV SERVICE	43.23
27410						**$100.00**
	400 - WELLNESS CENTER	02/07/25	7312	GUIZAR JORGE	LWC RENTAL DEP REF	100
27411						**$100.00**
	400 - WELLNESS CENTER	02/07/25	7311	JONES ANDREA	LWN RENTAL DEP REF	100
27412						**$4,536.00**
	101 - GENERAL FUND	02/07/25	4076	LIEBERT CASSIDY WHI	INV 282387	1215
	101 - GENERAL FUND	02/07/25	4076	LIEBERT CASSIDY WHI	INV 282388	180
	101 - GENERAL FUND	02/07/25	4076	LIEBERT CASSIDY WHI	INV 283726	3141
27413						**$3,534.87**
	101 - GENERAL FUND	02/07/25	6550	MARIO SAGREDO ELECT	INV 3673	1006.43
	101 - GENERAL FUND	02/07/25	6550	MARIO SAGREDO ELECT	INV 3674	946.88
	261 - GAS TAX FUND	02/07/25	6550	MARIO SAGREDO ELECT	LED WELL REPAIRS	1581.56
27414						**$120.00**
	400 - WELLNESS CENTER	02/07/25	4323	OASIS	MONITORING JAN 25	120
27415						**$87.64**
	400 - WELLNESS CENTER	02/07/25	7242	ODP BUSINESS SOLUTI	LWC SUPPLIES	71.52
	552 - WATER	02/07/25	7242	ODP BUSINESS SOLUTI	CALENDATR	8.06
	553 - SEWER	02/07/25	7242	ODP BUSINESS SOLUTI	CALENDATR	8.06
27416						**$1,066.73**
	553 - SEWER	02/07/25	4618	PROVOST & PRITCHARD	PROJ 03257-24-101	1066.73
27417						**$18,503.40**
	101 - GENERAL FUND	02/07/25	399	QUAD KNOPF,INC.	PROJ180454	13695
	101 - GENERAL FUND	02/07/25	399	QUAD KNOPF,INC.	PROJECT 220009	1386.7
	101 - GENERAL FUND	02/07/25	399	QUAD KNOPF,INC.	PROJECT 230009 ENGI	3421.7
27418						**$100.76**
	400 - WELLNESS CENTER	02/07/25	7310	RAMIREZ LAURA	LWC RENTAL DEP REF	100.76
27419						**$1,543.25**
	554 - REFUSE	02/07/25	7308	RESOURCES RECYCLING	INV 0000001610626	1543.25
27420						**$100.00**
	400 - WELLNESS CENTER	02/07/25	7309	REYES VINCENT	LWN RENTAL DEP REF	100
27421						**$44,252.09**
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	89.17
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	2512.04
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	3213.92
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	47.46
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	1262.53
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	6460.63
	552 - WATER	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	28411.74
	553 - SEWER	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	891.98
	556 - VITA-PAKT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	180.39
	883 - SIERRA VIEW ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	288.04
	884 - HERITAGE ASSESSMENT DIST	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	96.48
	886 - SAMOA	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	32.47
	887 - SWEETBRIER TOWNHOUSES	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	28.86
	888 - PARKSIDE	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	96.23
	889 - SIERRA VISTA ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	209.95
	890 - MAPLE VALLEY ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	-76.2
	891 - PELOUS RANCH	02/07/25	310	SOUTHERN CA. EDISON	600001505934 OCT	506.4
27422						**$70.82**
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	700477296224	70.82
27423						**$76.69**
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	700477296224	76.69
27424						**$56.04**
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	700150343172	56.04
27425						**$3,406.90**
	400 - WELLNESS CENTER	02/07/25	310	SOUTHERN CA. EDISON	700470455603	3406.9
27426						**$4,443.46**
	400 - WELLNESS CENTER	02/07/25	310	SOUTHERN CA. EDISON	700470455603	4443.46
27427						**$32,942.44**
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	33.13
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	1280.54
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	1407.81
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	-125.3
	101 - GENERAL FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	444.45
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	6360.92
	552 - WATER	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	22569.27
	553 - SEWER	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	-14.98
	556 - VITA-PAKT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	65.19
	883 - SIERRA VIEW ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	113.36
	884 - HERITAGE ASSESSMENT DIST	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	9.03
	886 - SAMOA	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	-58.2
	887 - SWEETBRIER TOWNHOUSES	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	30.57
	888 - PARKSIDE	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	8.81
	889 - SIERRA VISTA ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	209.62
	890 - MAPLE VALLEY ASSESSMENT	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	102.57
	891 - PELOUS RANCH	02/07/25	310	SOUTHERN CA. EDISON	600001505934 NOV	505.65
27428						**$70.33**
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	700439853113	70.33

27429						**$67.58**
	261 - GAS TAX FUND	02/07/25	310	SOUTHERN CA. EDISON	700439853113	67.58
27430						**$169.00**
	553 - SEWER	02/07/25	5691	STATE WATER RESOURC	OP IN TRAIN CERT	169
27431						**$4,663.52**
	101 - GENERAL FUND	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	68.49
	101 - GENERAL FUND	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	561.72
	101 - GENERAL FUND	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	801.69
	101 - GENERAL FUND	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	1211.69
	101 - GENERAL FUND	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	754.6
	400 - WELLNESS CENTER	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	749.43
	552 - WATER	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	131.51
	553 - SEWER	02/07/25	5755	TELEPACIFIC COMMUNI	FIN OPO Q3 FY25	384.39
27432						**$792.50**
	400 - WELLNESS CENTER	02/07/25	144	THE GAS COMPANY	092-375-2718-0 DEC2	792.5
27433						**$809.02**
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	684.42
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	400 - WELLNESS CENTER	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
27434						**$807.37**
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	682.77
	101 - GENERAL FUND	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
	400 - WELLNESS CENTER	02/07/25	3132	T-MOBILE	OPEN PO NTE 3000 Q3	31.15
27435						**$807.37**
	101 - GENERAL FUND	02/07/25	7273	T-MOBILE USA INC	DEC SVC	31.15
	101 - GENERAL FUND	02/07/25	7273	T-MOBILE USA INC	DEC SVC	31.15
	101 - GENERAL FUND	02/07/25	7273	T-MOBILE USA INC	DEC SVC	682.77
	101 - GENERAL FUND	02/07/25	7273	T-MOBILE USA INC	DEC SVC	31.15
	400 - WELLNESS CENTER	02/07/25	7273	T-MOBILE USA INC	DEC SVC	31.15
27436						**$56.20**
	552 - WATER	02/07/25	7273	T-MOBILE USA INC	PHONE SERVICES	28.1
	553 - SEWER	02/07/25	7273	T-MOBILE USA INC	PHONE SERVICES	28.1
27437						**$250.00**
	101 - GENERAL FUND	02/07/25	1243	TU CO CHIEFS ASSOCI	2025 TCCA ANN DUES	250
27438						**$150.48**
	101 - GENERAL FUND	02/07/25	5747	USA STAFFING INC.	GONZALEZ, ANITA	150.48
27439						**$419.07**
	552 - WATER	02/07/25	356	USA BLUEBOOK	INV 00574346	419.07
27440						**$150.00**
	400 - WELLNESS CENTER	02/07/25	5912	YVETTE DURAN	JAN 2025 POUND LWC	150
27441						**$829.27**
	101 - GENERAL FUND	02/13/25	4660	CITY OF LINDSAY	DED:052 WELLNESS	39.7
	101 - GENERAL FUND	02/13/25	4660	CITY OF LINDSAY	DED:CDBG CDBG PMT	350
	101 - GENERAL FUND	02/13/25	4660	CITY OF LINDSAY	DED:L203 CDBG LOAN	439.57
27442						**$368.83**
	101 - GENERAL FUND	02/13/25	3192	SEIU LOCAL 521	DED:COPE COPE SEIU	2
	101 - GENERAL FUND	02/13/25	3192	SEIU LOCAL 521	DED:DUES UNION DUES	366.83
27443						**$6,360.03**
	101 - GENERAL FUND	02/13/25	6452	GREAT-WEST TRUST	DED:0500 DEF COMP	1945.08
	101 - GENERAL FUND	02/13/25	6452	GREAT-WEST TRUST	DED:0555 DC LOANPAY	1255.96
	101 - GENERAL FUND	02/13/25	6452	GREAT-WEST TRUST	DED:151 DEFERCOMP	2737.96
	101 - GENERAL FUND	02/13/25	6452	GREAT-WEST TRUST	DED:ROTH ROTH	421.03
27444						**$224.62**
	101 - GENERAL FUND	02/13/25	7301	LINDSAY POLICE OFFI	DED:LPOA LPOA DUES	224.62
27445						**$73.82**
	101 - GENERAL FUND	02/13/25	6246	MCDERMONT VENTURE I	DED:051 MCDERMONT	73.82
27446						**$62.76**
	101 - GENERAL FUND	02/13/25	3042	STATE DISBURSEMENT	DED:0512 CHILD SUPT	62.76
27447						**$439.65**
	101 - GENERAL FUND	02/13/25	1498	STATE OF CALIF FRAN	DED:0511 FTB - DEBT	439.65
27448						**$195.12**
	400 - WELLNESS CENTER	02/14/25	3023	AAA SECURITY, INC.	GUARD SERVICE	195.12
27449						**$45.35**
	101 - GENERAL FUND	02/14/25	4877	ADAM ROMERO	FUEL REIMBURSEMENT	45.35
27450						**$394.81**
	101 - GENERAL FUND	02/14/25	2873	ADVANTAGE ANSWERING	DEC ANSWERING	78.96
	101 - GENERAL FUND	02/14/25	2873	ADVANTAGE ANSWERING	DEC ANSWERING	78.96
	552 - WATER	02/14/25	2873	ADVANTAGE ANSWERING	DEC ANSWERING	78.96
	553 - SEWER	02/14/25	2873	ADVANTAGE ANSWERING	DEC ANSWERING	78.96
	554 - REFUSE	02/14/25	2873	ADVANTAGE ANSWERING	DEC ANSWERING	78.97
27451						**$17,128.12**
	553 - SEWER	02/14/25	7316	B & K VALVES & EQUI	INV 3900.1-1	17128.12
27452						**$9,691.57**
	460 - CA STATE PARKS	02/14/25	051	BSK	OLIVE BOWL LIGHT PO	1200
	552 - WATER	02/14/25	051	BSK	BACTI	3921.25
	552 - WATER	02/14/25	051	BSK	EXT-EPA 1623.1	3030

	553 - SEWER	02/14/25	051	BSK	WASTE WATER	1014.69
	556 - VITA-PAKT	02/14/25	051	BSK	VITA PAKT	525.63
27453						**$604.00**
	101 - GENERAL FUND	02/14/25	5013	BUZZ KILL PEST CONT	PEST CONTROL	604
27454						**$10,474.53**
	553 - SEWER	02/14/25	7313	CARDINAL BLUE SOLAR	INVOICE 34531967	4553.11
	553 - SEWER	02/14/25	7313	CARDINAL BLUE SOLAR	INVOICE 34780005	3436.16
	553 - SEWER	02/14/25	7313	CARDINAL BLUE SOLAR	INVOICE 35115472	2485.26
27455						**$661.50**
	101 - GENERAL FUND	02/14/25	076	CENTRAL VALLEY BUSI	WINDOW ENVELOPS	79.82
	101 - GENERAL FUND	02/14/25	076	CENTRAL VALLEY BUSI	WINDOW ENVELOPS	79.81
	552 - WATER	02/14/25	076	CENTRAL VALLEY BUSI	INV 256174	262.44
	552 - WATER	02/14/25	076	CENTRAL VALLEY BUSI	WINDOW ENVELOPS	79.81
	553 - SEWER	02/14/25	076	CENTRAL VALLEY BUSI	WINDOW ENVELOPS	79.81
	554 - REFUSE	02/14/25	076	CENTRAL VALLEY BUSI	WINDOW ENVELOPS	79.81
27461						**$3,500.08**
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.81
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.67
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.8
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.67
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.8
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	101 - GENERAL FUND	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.68
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.8
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	552 - WATER	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.68
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.81

	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	553 - SEWER	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.68
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.29
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.29
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.81
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.04
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.71
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32.02
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.08
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.71
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.71
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32.02
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32.02
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.71
	554 - REFUSE	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.29
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	CINTAS ORDER	23.68
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 1905248683	30.31
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 1905250025	16.34
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4204115651	43.81
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4209972650	202.05
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4209972672	3.62
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4210637758	3.72
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4210637831	32
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4211364890	39.1
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4211364895	3.72
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4212211422	3.72
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4212211514	32
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4213058859	32
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 4213058882	3.72
	556 - VITA-PAKT	02/14/25	5832	CINTAS CORPORATION	INV 9297050849	30.31
27462						**$8.50**
	101 - GENERAL FUND	02/14/25	102	CULLIGAN	CS OPO NTE 183 Q3 F	1.53
	553 - SEWER	02/14/25	102	CULLIGAN	CS OPO NTE 183 Q3 F	6.97
27463						**$2.33**
	553 - SEWER	02/14/25	1235	DELTA VECTOR CONTRO	DV10020	2.33
27464						**$1,649.00**
	779 - 00-HOME-0487	02/14/25	6084	FARMERS INSURANCE E	POLICY 93930-49-09	1649
27465						**$2,512.00**
	552 - WATER	02/14/25	137	FRIANT WATER AUTHOR	CS OPO Q3 FY 25	2512
27466						**$276.50**
	553 - SEWER	02/14/25	6010	FRONTIER COMMUNICAT	BILL DATE 1-19-25	136.53
	553 - SEWER	02/14/25	6010	FRONTIER COMMUNICAT	BILL DATE 12-19-24	139.97
27467						**$332.62**
	553 - SEWER	02/14/25	1925	FRUIT GROWERS SUPPL	INV 92505867	332.62
27468						**$247.07**
	101 - GENERAL FUND	02/14/25	1391	HOME DEPOT	LAW CARE	54.38
	101 - GENERAL FUND	02/14/25	1391	HOME DEPOT	LAW CARE	192.69
27469						**$750.00**
	553 - SEWER	02/14/25	180	INGRAM EQUIPMENT CO	INV 2703	750
27470						**$861.30**
	552 - WATER	02/14/25	201	KENS STAKES & SUPPL	EST 145 PAAINT	430.65
	553 - SEWER	02/14/25	201	KENS STAKES & SUPPL	EST 145 PAAINT	430.65
27471						**$48.55**
	101 - GENERAL FUND	02/14/25	2591	KIMBALL MIDWEST	INV 102991879	48.55
27472						**$162.66**
	552 - WATER	02/14/25	7091	MARQUEZ HEATING & C	INV 1419	162.66
27473						**$392,065.38**
	101 - GENERAL FUND	02/14/25	5852	MID VALLEY DISPOSAL	3136199	200
	554 - REFUSE	02/14/25	5852	MID VALLEY DISPOSAL	ANNUAL REFUSE	391865.38
27474						**$1,723.08**
	556 - VITA-PAKT	02/14/25	4618	PROVOST & PRITCHARD	115690	1723.08
27475						**$97.86**
	400 - WELLNESS CENTER	02/14/25	285	QUILL CORPORATION	ORDR 182202396	97.86
27476						**$175.00**
	400 - WELLNESS CENTER	02/14/25	3208	SHANNON PATTERSON	AEROBICS	175
27477						**$79.44**
	261 - GAS TAX FUND	02/14/25	310	SOUTHERN CA. EDISON	700477296224	79.44
27478						**$57.00**
	261 - GAS TAX FUND	02/14/25	310	SOUTHERN CA. EDISON	8000756978	42.36

	891 - PELOUS RANCH	02/14/25	310	SOUTHERN CA. EDISON	8003347709	14.64
27479						**$68.27**
	261 - GAS TAX FUND	02/14/25	310	SOUTHERN CA. EDISON	CS OPEN PO JAN NAR	68.27
27480						**$56.31**
	552 - WATER	02/14/25	7273	T-MOBILE USA INC	CS OPO Q3 FY25	28.15
	553 - SEWER	02/14/25	7273	T-MOBILE USA INC	CS OPO Q3 FY25	28.16
27481						**$60.00**
	101 - GENERAL FUND	02/14/25	6413	TRANS UNION LLC	10/26/2024-11/25/20	60
27482						**$25.00**
	554 - REFUSE	02/14/25	793	TULARE COUNTY AUDIT	004000021325	25
27483						**$121,428.50**
	300 - MCDERMONT SALE PROCEEDS	02/14/25	6517	WARREN & BAERG MANU	BARSCREEN	121428.5
27484						**$49,861.00**
	200 - STREET IMPROVEMENT FUND	02/14/25	113	DEPT OF TRANSPORTAT	DEBT SERVICE	49861
SUMMARY BY FUNDING SOURCE						**$798,601.84**
	101 - GENERAL FUND					59,767.83
	200 - STREET IMPROVEMENT FUND					49,861.00
	261 - GAS TAX FUND					16,193.48
	263 - TRANSPORTATION					-
	266 - LTF-ART 8 STREETS & ROADS					-
	300 - MCDERMONT SALE PROCEEDS					126,228.50
	306 - COVID-19 ARPA FUND					-
	400 - WELLNESS CENTER					11,464.80
	460 - CA STATE PARKS					1,200.00
	471 - PARK IMPROVEMENTS					-
	552 - WATER					87,381.55
	553 - SEWER					40,836.10
	554 - REFUSE					394,092.41
	556 - VITA-PAKT					2,994.39
	600 - CAPITAL IMPROVEMENT					-
	660 - RDA OBLIGATION RETIREMENT					-
	700 - CDBG REVOLVING LN FUND					-
	702 - CHFA-HELP LHBP					40.00
	720 - HOME REVOLVING LN FUND					-
	779 - 00-HOME-0487					6,403.50
	781 - CAL HOME RLF					20.00
	883 - SIERRA VIEW ASSESSMENT					401.40
	884 - HERITAGE ASSESSMENT DIST					105.51
	886 - SAMOA					(25.73)
	887 - SWEETBRIER TOWNHOUSES					59.43
	888 - PARKSIDE					105.04
	889 - SIERRA VISTA ASSESSMENT					419.57
	890 - MAPLE VALLEY ASSESSMENT					26.37
	891 - PELOUS RANCH					1,026.69
TOTAL						798,601.84

STAFF REPORT

TO: Lindsay City Council
MEETING DATE: February 25, 2025

Item #: 10.4
Consent

DEPARTMENT:	City Manager
FROM:	Daymon Qualls, City Manager
AGENDA TITLE:	Letter of Support for Tulare County's RTAP Application for the Orange Belt Corridor Safety Study

ACTION & RECOMMENDATION

Authorize the City Manager to sign a letter of support for the Tulare County Resource Management Agency's (RMA) application for the "Orange Belt Corridor Safety Feasibility Study" project to the U.S. Department of Transportation's Rural and Tribal Assistance Program (RTAP).

BACKGROUND | ANALYSIS

The Tulare County Resource Management Agency (RMA) is applying for grant funding under the Rural and Tribal Assistance Program (RTAP) for a planning study titled the "Orange Belt Corridor Safety Feasibility Study." The project will focus on the Orange Belt Drive corridor, which is a critical transportation route for the City of Lindsay, the community of Strathmore, and the City of Porterville. This corridor is essential for residents accessing important services, educational opportunities, and key locations within the region.

The City of Lindsay has a longstanding partnership with Tulare County RMA, and this proposed study will build upon that relationship. The project includes the analysis and identification of operational improvements to address safety concerns and alleviate congestion, specifically focusing on the Lindmore St/Orange Belt intersection, which falls within the City's purview.

The Orange Belt Corridor Safety Feasibility Study is vital for ensuring the long-term safety and accessibility of this key transportation corridor. The study will evaluate the current infrastructure and identify potential improvements that will benefit the region for decades to come. This project is particularly important to the City of Lindsay and the surrounding rural communities, which have historically faced challenges related to infrastructure development in areas of persistent poverty and disadvantage.

Tulare County RMA is applying for funding under the "Multi-Community" subcategory, as the project will have an impact across several communities, including Lindsay, Porterville, and Strathmore. The project will also include community engagement activities to ensure the proposed improvements meet the needs of the affected populations.

The City's support of this grant application will help ensure that Lindsay is represented in the planning phase, which could lead to improved transportation safety, congestion mitigation, and economic development opportunities in the region.

Authorizing the City Manager to sign a letter of support for the Tulare County RMA's application to the RTAP program will strengthen the City's partnership with Tulare County and demonstrate the City's commitment to improving transportation safety and accessibility in the region. This collaborative project will have long-term benefits for the City of Lindsay, as well as for the surrounding communities.

FISCAL IMPACT

There is no direct fiscal impact to the City of Lindsay at this time. The support letter is part of a grant application process for which funding would be provided by the U.S. Department of Transportation if awarded. The City will collaborate with Tulare County RMA at no cost during the planning phase.

ATTACHMENTS

1. Draft Letter of Support for the application of Tulare County Resource Management Agency (RMA) to the U.S. Department of Transportation's Rural and Tribal Assistance Program (RTAP) for the "Orange Belt Corridor Safety Feasibility Study" Project.

Reviewed/Approved:

March 4, 2025

The Honorable Sean Duffy
Secretary of the United States Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Dear Secretary Duffy:

On behalf of the City of Lindsay, I support the application of Tulare County Resource Management Agency (RMA) to the U.S. Department of Transportation's Rural and Tribal Assistance Program (RTAP) for the "Orange Belt Corridor Safety Feasibility Study" Project. Tulare County RMA is the Lead Applicant, and is applying for grant funding under the subcategory of Multi-Community, as the project boundaries include portions of the Orange Belt Corridor that are in the rural Cities of Lindsay and Porterville, as well as the unincorporated community of Strathmore.

Orange Belt Drive is a critical corridor in the region, providing direct access to downtown Lindsay, the community of Strathmore and downtown Porterville. Residents utilize the corridor to access essential goods, services, educational opportunities and events located in the adjacent cities. The Lindmore St/Orange Belt intersection is within the City's purview, and is in need of operational improvements to address safety concerns and congestion issues. If the aforementioned planning project is awarded, the City of Lindsay will expeditiously enter into a partnership agreement with Tulare County RMA to ensure efficient execution of program activities. The City and the County have a long history of successful collaboration on both planning and implementation projects, with both Agencies committed to the vision of working together in order to improve the quality of life for our constituents.

This project is an ideal candidate for receiving funding from the RTAP program, as it is an essential first step in the planning and design phase to identify appropriate operational improvements to a corridor within a rural area of persistent poverty and historically disadvantaged communities. The extensive analysis combined with proposed community engagement activities will ensure that the proposed design will have the most beneficial impact to the region not only in the present, but in the decades to come.

I thank you for your consideration of the County of Tulare's "Orange Belt Corridor Safety Feasibility Study" Project. Please feel free to contact me with any additional questions you may have.

Sincerely,

STAFF REPORT

TO: Lindsay City Council
MEETING DATE: February 25, 2025

Item #: 10.5
Consent

DEPARTMENT:	City Manager
FROM:	Daymon Qualls
AGENDA TITLE:	Agency Agreement with C21 Commercial (Jared Ennis / Kevin Land) for the Sale and/or Lease of City-Owned Properties

ACTION & RECOMMENDATION

Authorize the City Manager to sign the attached agency agreement with C21 Commercial (Jared Ennis / Kevin Land) for the sale and/or lease of City-owned properties located at 116 / 190 S Elmwood Ave, 100 / 112 E Honolulu St, Lindsay, CA 93247.

BACKGROUND | ANALYSIS

The City of Lindsay owns four parcels of commercially zoned land totaling ±46,132 SF, identified by APNs: 205-236-013-000, 205-236-014-000, 205-236-020-000, 205-236-022-000, commonly known as 116 / 190 S Elmwood Ave and 100 / 112 E Honolulu St in Lindsay, California. In order to effectively manage the sale and/or lease of these properties, the staff desires to enter into an agency agreement with C21 Commercial (Jared Ennis / Kevin Land).

Details of the agency agreement:

The Agency Agreement outlines the terms and conditions under which C21 Commercial will represent the City in marketing and negotiating transactions for the sale or lease of the aforementioned properties. Key provisions of the agreement include:

1. **Parties Involved:**
   The City of Lindsay (Owner) and C21 Commercial (Agent).
2. **Property Description:**
   The agreement pertains to four commercially zoned parcels in Lindsay, with a total land area of approximately 46,132 square feet.
3. **Term:**
   The agreement is effective through February 28, 2026, with an option for month-to-month continuation thereafter.
4. **Commission:**
   C21 Commercial is entitled to a commission of six percent (6%) of the sale price or lease consideration for any transactions successfully executed, with additional commission provisions in the event of alternative transactions.
5. **Responsibilities of the Agent:**
   The agent is tasked with finding buyers or lessees for the property, conducting negotiations, and handling marketing efforts, including the placement of advertising, lock boxes, and listings on commercial real estate platforms.
6. **Property Maintenance and Repair:**
   The City remains responsible for all maintenance, repair, and security of the property.
7. **Owner's Representations and Warranties:**
   The City has provided assurances that it owns the property and has the authority to enter into this agreement.

This agreement provides the City with professional real estate services to facilitate the sale and/or lease of City-owned properties. Approval of the agreement will ensure that the City Manager has the necessary authorization to execute the agreement and proceed with the transaction process.

FISCAL IMPACT

The City will be obligated to pay a commission of six percent (6%) of the sale price or lease consideration upon the successful closing of any transactions for the property. The fiscal impact will be dependent on the final sale or lease price.

ATTACHMENTS

1. Agency agreement with C21 Commercial

Reviewed/Approved:

EXCLUSIVE RIGHT TO REPRESENT OWNER FOR SALE OR LEASE OF REAL PROPERTY

(Non-Residential)

Central CA Commercial

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 **Parties:** This agency Agreement ("Agreement"), dated for reference purposes only, 2/20/2025 is made by and between City of Lindsay, a California municipal corporation , whose address is 251 E Honolulu St, Lindsay, CA 93247, telephone number (559) 562-7102 Ext. 8010, Fax No. , Email address dqualls@lindsay.ca.us ("Owner"), and C21 Commercial (Jared Ennis / Kevin Land), whose address is 7520 N Palm #102 Fresno, CA 93711 telephone number 559-705-1000 / 559-302-8698 / 559-359-4035, Fax No. 559-432-1250, email address jared@centralcacommercial.com / kevin@centralcacommercial.com, ("Agent").

1.2 **Property/Premises:** The real property, or a portion thereof, which is the subject of this Agreement is commonly known by the street address of 116 / 190 S Elmwood Ave, 100 / 112 E Honolulu St, Lindsay, CA 93247, located in the City of Lindsay, County of Tulare, State of California, and generally described as: Four (4) parcels of commercially zoned land totalling ±46,132 SF of useable land area commonly known as APNs: 205-236-013-000, 205-236-014-000, 205-236-020-000, 205-236-022000 ("Property"). (See also Paragraph 3)

1.3 **Term of Agreement:** The term of this Agreement shall commence on 2/20/2025 and expire at midnight on 2/28/2026, except as it may be extended ("Term"). (See also paragraph 4). Upon expiration of this agreement, the "Agreement" will become a month-to-month contract that may be cancelled by either party with ten (10) days written notice.

1.4 **Transaction:** The nature of the transaction concerning the Property for which Agent is employed ("Transaction") is (place x next to the appropriate box(es)):

(a) _X_ A sale for the following sale price and terms: $420,000 all cash at the close of escrow or terms and conditions acceptable to seller and other additional standard terms reasonably similar to those contained in the "STANDARD OFFER, AGREEMENT AND ESCROW INSTRUCTIONS FOR THE PURCHASE OF REAL ESTATE" published by the AIR Commercial Real Estate Association ("AIR"), or for such other price and terms agreeable to Owner;

(b) _X_ A lease or other tenancy for the following rent and terms: terms and conditions acceptable to landlord Lease and other additional standard terms reasonably similar to those contained in the appropriate AIR lease form or for such other rent and terms agreeable to Owner.

2. EXCLUSIVE EMPLOYMENT AND RIGHTS.

2.1 Owner hereby employs and grants Agent as Owner's sole, exclusive, and irrevocable right to agent to represent Owner in the Transaction and to find buyers or lessees/tenants **("lessees")**, as the case may be, for the Property. Agent shall use reasonably diligent efforts to find such buyers or lessees. All negotiations and discussions for a Transaction shall be conducted by Agent on behalf of Owner. Owner shall promptly disclose and refer to Agent all written or oral inquiries or contacts received by Owner from any source regarding a possible Transaction.

2.2 Owner authorizes Agent to:

(a) Place advertising signs on the Property;
(b) Place a lock box on the Property if vacant;
(c) Accept deposits from potential buyers or lessees; and
(d) Distribute information regarding the Property to participants in THE MULTIPLE **("MULTIPLE")** of the Fresno, Madera, Kings, and/or Tulare County Multiple Listing Service ("Commercial MLS") and/or any other appropriate local commercial multiple listing service, to other brokers, and to potential buyers or lessees of the Property. Owner shall identify as "confidential" any information provided to Agent that Owner considers confidential and does not want disclosed. All other information provided by Owner may be disclosed as Agent may deem appropriate or necessary. After consummation of a Transaction, Agent may publicize the terms of such Transaction.

2.3 Agent shall comply with the Rules of Professional Conduct of the AIR, if a member or if not, the Rules of Professional Conduct of the Society of Industrial and Office Realtors, and shall submit the Property to the MULTIPLE. Agent shall cooperate with participants in the MULTIPLE and may, at Agent's election, cooperate with other real estate brokers (collectively **"Cooperating Broker"**).

2.4 If the Transaction is a sale and Agent finds a prospective buyer for the Property, or if the Transaction is a lease and Agent finds a prospective lessee for the Property, Owner hereby authorizes Agent also to represent and act as the agent for such buyer or lessee, and Owner consents to such dual agency. If a Cooperating Broker finds such a buyer or lessee, then Agent shall act as agent for Owner only, the Cooperating Broker shall act as agent for the buyer or lessee only, and the Cooperating Broker shall not be Owner's agent, even though the Cooperating Broker may share in the commission paid by Owner to Agent. A Cooperating Broker shall not be an agent or subagent of Owner or Agent.

2.5 Owner agrees that Agent may, during the ordinary and normal course of marketing the Property, respond to inquiries on the Property by showing and providing information on the Property, as well as on other competing properties, to prospective buyers and lessees and that such activities may result in the payment of a commission to Agent by a third party.

3. PROPERTY.

3.1 The term "Property" shall include all of the following which are currently located on the Property and owned by Owner: permanent improvements, electrical distribution systems (power panels, buss ducting, conduits, disconnects, lighting fixtures, etc.), telephone distribution systems (lines, jacks and connections), space heaters, air conditioning equipment, air lines, carpets, window coverings, wall coverings, partitions, doors, suspended ceilings, built-ins such as cabinets, and none (if there are no additional items write "NONE"). If the Transaction is a sale, the term "Property" shall additionally include, to the extent owned by Owner, oil and mineral rights, leases and other agreements which will continue in effect after Owner's transfer of title to the Property.

3.2 Within five business days after the commencement of the Term hereof, Owner shall provide Agent with the following:

INITIALS ________

JE KL INITIALS ________

(a) A duly completed and fully executed Property Information Sheet on the most current form published by the AIR;

(b) Copies of all leases, subleases, rental agreements, option rights, rights of first refusal, rights of first offer, or other documents containing any other limitations on Owner's right, ability and capacity to consummate a Transaction, and

(c) If available to Owner, copies of building plans, and if the Transaction is a sale, title reports, boundary surveys, and existing notes and trust deeds which will continue to affect the Property after consummation of a sale.

3.3 Agent shall have no responsibility for maintenance, repair, replacement, operation, or security of the Property, all of which shall be Owner's sole responsibility. Unless caused by Agent's gross negligence, Agent shall not be liable for any loss, damage, or injury to the person or property of Owner, any lessees of the Property, any buyer, prospective buyer, lessee, or prospective lessee, including, but not limited to, those which may occur as a result of Agent's use of a lock box.

4. EXTENSION OF TERM. If the Transaction is a sale, and a sale is not consummated for any reason after Owner accepts an offer to purchase the Property ("Sale Agreement"), then the expiration date of the Term of this Agreement shall be extended by the number of days that elapsed between the date Owner entered into the Sale Agreement and the later of the date on which the Sale Agreement is terminated or the date Owner is able to convey title to a new buyer free and clear of any claims by the prior buyer of the Property.

5. COMMISSION.

5.1 Owner shall pay Agent a commission in the amount of six percent (6%) of the total sale price or total lease consideration ("Agreed Commission"), for a Transaction, whether such Transaction is consummated as a result of the efforts of Agent, Owner, or some other person or entity. Agent shall also be entitled to the Agreed Commission if any of the Owner's representations and warranties described in paragraph 8 are shown to be false. In the event of a lease transaction the commission shall be no less than the highest months rent consideration. Such Agreed Commission is payable:

(a) If the Transaction is a sale, (i) the Property is sold; (ii) Owner breaches or repudiates any Sale Agreement, escrow instructions or other documents executed by Owner regarding the sale of the Property; (iii) the Property or any interest therein is voluntarily or involuntarily sold, conveyed, contributed or transferred; (iv) the Property or any interest therein is taken under the power of Eminent Domain or sold under threat of condemnation, or

(b) if Owner is a partnership, joint venture, limited liability company, corporation, trust or other entity, and any interest in Owner is voluntarily or involuntarily sold, contributed, conveyed or transferred to another person or entity that, as of the date hereof, does not have any ownership interest in Owner;

(c) If the Transaction is a lease, (i) a lease of the Property, or a portion thereof is executed; or (ii) a lessee is procured who is ready, willing and able to lease the Property on the terms stated herein, or on any other rent and/or terms agreeable to Owner; or

(d) If Owner (i) removes or withdraws the Property from a Transaction or the market; (ii) acts as if the Property is not available for a Transaction; (iii) treats the Property as not available for a Transaction; (iv) breaches, terminates, cancels or repudiates this Agreement; (v) renders the Property unmarketable; or (vi) changes the status of the Property's title, leases, agreements, physical condition or other aspects thereof, which such change adversely impacts the value, use, desirability or marketability of the Property.

5.2 If the Transaction is a sale, the purchase agreement and/or escrow instructions to be entered into by and between Owner and a buyer of the Property shall provide that:

(a) Owner irrevocably instructs the escrow holder to pay from Owner's proceeds accruing to the account of Owner at the close of escrow the Agreed Commission to Agent;

(b) A contingency to the consummation of the sale shall be the payment of the Agreed Commission to Agent at or prior to close of the escrow; and

(c) No change shall be made by Owner or buyer with respect to the time of, amount of, or the conditions to payment of the Agreed Commission, without Agent's written consent.

6. **ALTERNATIVE TRANSACTION.** If the Transaction changes to any other transaction, including, but not limited to, a sale, exchange, option to buy, right of first refusal, ground lease, lease, sublease or assignment of lease (collectively "Alternative Transaction"), then Agent shall automatically be Owner's sole and exclusive Agent for such Alternative Transaction and represent Owner in such Alternative Transaction, under the terms and conditions of this Agreement. If, during the Term hereof, an Alternative Transaction is entered into, then Owner shall pay Agent the Agreed Commission.

7. EXCLUDED AND REGISTERED PERSONS.

7.1 Owner shall, within 5 business days after the date hereof, provide Agent, in writing, with the names of those persons or entities registered with Owner by any other broker under any prior agreement concerning the Property ("Excluded Persons", see paragraph 7.5). Owner shall also specify for each Excluded Person the type of transaction the consummation of which during the Term of this Agreement entitles such other broker to any compensation ("Excluded Transaction"). Agent may within 10 days of receiving such written list, either (a) accept the Excluded Persons and Excluded Transactions, (b) cancel this Agreement, or (c) attempt to renegotiate this portion of the Agreement with Owner. Once accepted by Agent, the written list shall automatically become an exhibit to this Agreement. If Owner timely provides Agent with the names of the Excluded Persons and specifies the Excluded Transaction for each Excluded Person, then the Agreed Commission paid to Agent with respect to consummation of such an Excluded Transaction with an Excluded Person shall be limited as follows: if such Excluded Transaction is concluded within the first 30 days of the commencement of the Term hereof, then Agent shall be paid a commission equal to the reasonable out-of-pocket expenses incurred by Agent in the marketing of the Property during said 30 days; or if such Excluded Transaction is concluded during the remainder of the Term hereof, then Agent shall be entitled to a commission equal to one-half of the Agreed Commission. If the specified information concerning Excluded Persons and Transactions is not provided as set forth herein, then it shall be conclusively deemed that there are no Excluded Persons.

7.2 Agent shall, within 5 business days after the expiration of the Term hereof, provide Owner, in writing, with the name of those persons or entities with whom Agent either directly or through another broker had negotiated during the Term hereof ("Registered Persons", see paragraph 7.5), and specify the type of transaction of the Property for which such negotiations were conducted ("Registered Transaction"). Those persons or entities who submitted written offers or letters of intent shall, however, automatically be deemed to be Registered Persons for the type of transaction which was the subject of such offer or letter of intent. If Agent fails to timely notify Owner of the existence of any other Registered Persons, then it shall be conclusively deemed that there are no other Registered Persons. A person or entity shall not be a Registered Person if Agent fails to timely specify a

Registered Transaction for such person or entity. The parties are aware that the registration of certain individuals and/or entities might create a Dual Agency, and Owner hereby consents to any such Dual Agency.

7.3 If, within 180 days after the expiration of the Term hereof, Owner enters into a contract with a Registered Person for consummation of a Registered Transaction, then Owner shall, upon consummation of such Registered Transaction, pay Agent the Agreed Commission for the Registered Transaction.

7.4 If, within 180 days after the expiration of the Term hereof, Owner enters into another owner-agency or listing agreement with a broker other than Agent for any transaction concerning the Property, then Owner shall provide to Owner's new broker the names of the Registered Persons and the Registered Transaction for each Registered Person, and provide in such new agreement that the new broker shall not be entitled to receive any of the compensation payable to Agent hereunder for consummation of a Registered Transaction with a Registered Person.

7.5 In order to qualify to be an Excluded Person or a Registered Person the individual or entity must have: toured the Property, submitted a letter of interest or intent, and/or made an offer to buy or lease the Property. In addition, Excluded Persons may only be registered by a broker who previously had a valid listing agreement covering the Property, and such broker may only register individuals and entities actually procured by such listing broker.

8. OWNER'S REPRESENTATIONS.

Owner represents and warrants that:

(a) Each person executing this Agreement on behalf of Owner has the full right, power and authority to execute this Agreement as or on behalf of Owner;

(b) Owner owns the Property and/or has the full right, power and authority to execute this Agreement and to consummate a Transaction as provided herein, and to perform Owner's obligations hereunder;

(c) Neither Owner nor the Property is the subject of a bankruptcy, insolvency, probate or conservatorship proceeding;

(d) Owner has no notice or knowledge that any lessee or sublessee of the Property, if any, is the subject of a bankruptcy or insolvency proceeding;

(e) There are no effective, valid or enforceable option rights, rights of first refusal, rights of first offer or any other restrictions, impediments or limitations on Owner's right, ability and capacity to consummate a Transaction, except as disclosed in writing pursuant to Paragraph 3.2(b).

(f) That as of the date of this Agreement the asking sales price is not less than the total of all monetary encumbrances on the Property.

9. OWNER'S ACKNOWLEDGMENTS. Owner acknowledges that it has been advised by Agent to consult and retain experts to advise and represent it concerning the legal and tax effects of this Agreement and consummation of a Transaction or Alternative Transaction, as well as the condition and/or legality of the Property, including, but not limited to, the Property's improvements, equipment, soil, tenancies, title and environmental aspects. Agent shall have no obligation to investigate any such matters unless expressly otherwise agreed to in writing by Owner and Agent. Owner further acknowledges that in determining the financial soundness of any prospective buyer, lessee or security offered, Owner will rely solely upon Owner's own investigation, notwithstanding Agent's assistance in gathering such information.

10. MISCELLANEOUS.

10.1 This Agreement shall not be construed either for or against Owner or Agent, but shall be interpreted, construed and enforced in accordance with the mutual intent of the parties ascertainable from the language of this Agreement.

10.2 All payments by Owner to Agent shall be made in lawful United States currency. If Owner fails to pay to Agent any amount when due under this Agreement, then such amount shall bear interest at the rate of 15% per annum or the maximum rate allowed by law, whichever is less.

10.3 In the event of litigation or arbitration between Owner and Agent arising under or relating to this Agreement or the Property, the prevailing party shall be paid its attorney's fees and costs by the losing party. The term, "Prevailing Party" shall include, without limitation, one who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other party of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be in an amount to fully reimburse all attorney's fees reasonably incurred in good faith.

10.4 Owner agrees to indemnify, defend (with counsel reasonably acceptable to Agent), and hold Agent harmless from and against any claim or liability asserted against Agent as a result of the failure of Owner to make a full and complete disclosure pursuant to law and paragraph 3.2(a) or as a result of the fact that any of the representations made by Owner (see paragraph 8) were not true at the time that this Agreement was signed.

10.5 Owner hereby releases and relieves Agent, and waives Owner's entire right of recovery against Agent, for direct or consequential loss or damage arising out of or incident to the perils covered by insurance carried by Owner, whether or not due to the negligence of Agent.

10.6 In the event that the Transaction is not an outright sale, Owner agrees that if Agent is not paid the Agreed Commission provided for herein within thirty days of the date due, that Agent shall have a lien in the amount of such commission, and may record a notice of such lien, against the Property.

10.7 Owner agrees that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to the services to be performed by Agent pursuant to this Agreement may be brought against Agent more than one year after the expiration of the Term of this Agreement (see paragraph 1.3) and that the liability (including court costs and attorney's fees) of Agent with respect to any such lawsuit and/or legal proceeding shall not exceed any fee received by Agent pursuant to this Agreement; provided, however, that the foregoing limitation on liability shall not be applicable to any gross negligence or willful misconduct of Agent.

11. ARBITRATION OF DISPUTES.

11.1 ANY CONTROVERSY ARISING UNDER OR RELATING TO THIS AGREEMENT SHALL BE DETERMINED BY BINDING ARBITRATION TO BE CONDUCTED BY: X THE AMERICAN ARBITRATION ASSOCIATION OR __ USING THE COMMERCIAL RULES ESTABLISHED BY SUCH ORGANIZATION OR IF NONE THE AMERICAN ARBITRATION ASSOCIATION'S COMMERCIAL RULES. ARBITRATION HEARINGS SHALL BE HELD IN THE COUNTY WHERE THE PROPERTY IS LOCATED.

11.2 Notice: BY SUCH ORGANIZATION OR IF NONE THE AMERICAN ARBITRATION ASSOCIATION'S COMMERCIAL RULES. ARBITRATION HEARINGS SHALL BE HELD IN THE COUNTY WHERE THE PROPERTY IS LOCATED.

INITIALS ________

INITIALS ________

11.3 NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

11.4 WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

_____________________ Owner's Initials

JE KL _____________________ Agent's Initials

11.5 THE PROVISIONS OF THE ABOVE ARBITRATION CLAUSE SHALL NOT BE BINDING ON EITHER PARTY UNLESS BOTH PARTIES HAVE PLACED THEIR INITIALS UNDER PARAGRAPH 11.3.

11.6 Additional Provisions: Additional provisions of this Agreement are set forth in the following blank lines or in an addendum attached hereto and made a part hereof consisting of paragraphs none through none (if there are no additional provisions write "NONE"):

12. Disclosures Regarding The Nature of a Real Estate Agency Relationship. When entering into an agreement with a real estate agent an Owner should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction.

(i) *Owner's Agent.* An Owner's agent may act as an agent for the Owner only. An Owner's agent or subagent has the following affirmative obligations: *To the Owner:* A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings. *To a potential buyer/lessee and the Owner:* a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) *Agent Representing Both Parties.* A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both Parties in a transaction, but only with the knowledge and consent of the Parties. In a dual agency situation, the agent has the following affirmative obligations to both Parties: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Party. b. Other duties to the Owner as stated above in subparagraph (i). When representing both Parties, an agent may not without the express permission of the respective Party, disclose to the other Party that the Owner will accept rent/purchase price in an amount less than that indicated in the listing or that the buyer/lessee is willing to pay a higher rent/purchase price than that offered.

The above duties of the Agent do not relieve Owner from the responsibility to protect its own interests. Owner should carefully read all agreements to assure that they adequately express its understanding of the transaction.

"OWNER"	**"AGENT"**
City of Lindsay, a California municipal corporation	C21 Commercial (Jared Ennis/Kevin Land)
By: ______________________	By: Jared Ennis Kevin Land
Name Printed: Daymon Qualls	Name Printed: Jared Ennis / Kevin Land
Title: City Manager	Title: Agent / Agent
Date: ______________________	Date: Thursday, February 20, 2025
	Agent License Number: 02032738 / 01945284 / 01516541

STAFF REPORT

TO: Lindsay City Council
MEETING DATE: February 25, 2025

Item #: 11.1
Action Items

DEPARTMENT: Finance

FROM: Lacy Meneses, Director of Finance

AGENDA TITLE: Corrective Action Plan in Response to State Auditor Report 2024-801

ACTION & RECOMMENDATION

Approve Resolution 25-05, adopting the City of Lindsay Corrective Action Plan in response to State Auditor Report 2024-801.

BACKGROUND | ANALYSIS

On December 19, 2024, the State Auditor issued Report 2024-801 which was a follow-up to a previous audit conducted in 2021 where the State Auditor deemed the City of Lindsay high-risk in audit report 2020-804 published August 26, 2021.

The state auditor issued eight major findings in the original report designating the City of Lindsay as high-risk for fiscal insolvency. Of the eight major findings, only two have been resolved to date. The City has created larger deficits in attempt to correct previous findings, which has further increased the risk for fiscal insolvency for the City of Lindsay and decreased the potential of the City of Lindsay being removed from the high-risk audit status with the State of California. In fact, risk has increased as the deficit fund balance has increased rather than decreased putting the City at greater risk for fiscal insolvency and on the verge of bankruptcy.

The City shall take drastic measures to ensure fiscal solvency, as detailed in the attached corrective action plan. The deficit fund balance must be addressed immediately with a reserve established by the end of year two, enabling the City of Lindsay to begin recovering from the fiscal challenges of the past several years.

The City of Lindsay will remain in high-risk audit status until the State Auditor determines that satisfactory corrective actions have been taken and audits are being conducted more frequently, every six months, to monitor progress of corrective action and ensure compliance. The City must demonstrate progress toward the attached corrective action plan by June 19, 2025.

FISCAL IMPACT

The fiscal impact of implementing each recommendation will vary, but the City is expected to see a significant reduction in expenditures by addressing the negative fund.

ATTACHMENTS

1. Resolution 25-05
2. City of Lindsay Corrective Action Plan in Response to State Auditor Report 2024-801
3. State Auditor Report 2020-804
4. State Auditor Report 2024-801

Reviewed/Approved:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LINDSAY

NUMBER	25-05
TITLE	A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LINDSAY ADOPTING THE CITY OF LINDSAY CORRECTIVE ACTION PLAN IN RESPONSE TO SATE AUDITOR REPORT 2024-801
MEETING	At a regularly scheduled meeting of the City of Lindsay City Council held on February 25, at 6:00 PM at 251 E. Honolulu Street, Lindsay, CA 93247

WHEREAS, on December 19, 2024, the State Auditor issued Report 2024-801 which was a follow-up to a previous audit conducted in 2021 where the State Auditor deemed the City of Lindsay high-risk in audit report 2020-804 published August 26, 2021; and

WHEREAS, the State auditor issued eight major findings in the original report designating the City of Lindsay as high-risk for fiscal insolvency; and

WHEREAS, of the eight major findings only two have been resolved, and the city has created larger deficits in attempt to correct previous findings, which has further increased the risk for fiscal insolvency for the City of Lindsay and decreased the potential of the City of Lindsay being removed from the high-risk audit status with the State of California; and

WHEREAS, City staff have prepared a Corrective Action Plan to address the findings.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LINDSAY DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The City Council adopts the Corrective Action Plan in Response to State Auditor Report 2024-801.

SECTION 2. This resolution shall be effective immediately upon its approval and adoption.

SECTION 3. The Mayor is hereby authorized to affix their signature to the Resolution signifying its adoption by the City Council of the City of Lindsay, and the City Clerk, or their duly appointed deputy, is directed to attest to them.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LINDSAY

PASSED AND ADOPTED by the City Council of the City of Lindsay as follows:

MEETING DATE	February 25, 2025
MOTION	
SECOND MOTION	
AYES	
ABSENT	
ABSTAIN	
NAYS	

CERTIFICATION OF THE FOREGOING RESOLUTION AS FULL, TRUE, PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF LINDSAY AS DETAILED.

____
Misty Villarreal, Mayor

CERTIFICATE OF ATTESTING OFFICER

The undersigned, Maegan Peton, City Clerk of the City of Lindsay does hereby attest and certify that the foregoing Resolution is a true, full and correct copy of a resolution duly adopted at a meeting of the City of Lindsay which was duly convened and held on the date stated thereon, and that said document has not been amended, modified, repealed or rescinded since its date of adoption and is in full force and effect as of the date thereof.

ATTEST: ____________________________________
Maegan Peton, City Clerk

Corrective Action Plan for The City of Lindsay

Re: California State Auditor Report 2024-801, December 2024

The city's most recent State Audit has determined that the city will maintain a designation as a High-Risk entity. California Code of Regulations, title 2, section 61140, requires the city to provide a corrective action plan within 60 days of the conclusion of the audit which is February 17, 2025. The city will also be required to submit updates every six months due to maintaining High-Risk entity status. The first update will be due June 19, 2025.

HIGH-RISK AREA #1

Inadequate Revenue Led to Illegal Transfers to the General Fund

> Status: We conclude that Lindsay has not addressed this risk area. Although the city has implemented a plan to eventually repay transfers to its general fund, the city has depleted its general fund, leaving Lindsay poorly situated to handle unexpected economic conditions.
>
> In our August 2021 audit, we found that the city forgave $6.3 million in loans made by several funds, including its water and sewer funds, to its general fund—an action that violated state law and exposed the city to litigation. Specifically, we observed that state law, as amended by Proposition 218, restricts cities from using revenue derived from property related fees 39 CALIFORNIA STATE AUDITOR Report 2024-801 | December 2024 LOCAL HIGH RISK and charges to pay for general government operations, and the city's forgiveness effectively converted those restricted funds into general funds, violating state law. We recommended that the city develop and implement a plan to repay fully these funds.
>
> During this audit, we found that Lindsay's city council reinstated the loans and approved an interest free repayment plan in February 2022. The plan calls for annual payments of up to $136,000. Further, the plan describes that the city will first reimburse $1.8 million to the water fund and $2.1 million to the sewer fund, which the city anticipates will take until fiscal years 2049–50 and 2054–55 respectively. The city then plans to reimburse the other affected funds including the street improvement fund. The city began its repayments in fiscal year 2022–23, and it anticipates completing full repayment to all funds in fiscal year 2090–91, a period that does not violate state law.
>
> *Corrective Action:*
>
> > *The city is working to reduce the overall general fund expenditures by reducing on going salary costs back to pre-Covid staffing levels through attrition. Currently city management staff have identified 22 positions that will not be back filled and instead eliminated from the budget. In addition to reducing salary and benefit cost the city is exploring zero based budgeting to eliminate the deficit fund balance in*

the year two (2026) to begin building a reserve of at least a 3-month average of expenditures.

The city management is responsible for ensuring this is met.

Timeline: address deficit spending in year one (2025), establish reserve in year two (2026) and have a sufficient reserve by year three (2027).

HIGH-RISK AREA #2

Potentially Improper Contributions to the City's Streets Maintenance Efforts

Status: We conclude that Lindsay has partially addressed this risk area by conducting a cost study identifying the impact of water and sewer damage to roadway conditions.

In our August 2021 audit, we noted that the city charges its utilities for the cost of street repair and maintenance that result from damage by those utilities. For example, the utility's water lines run underneath city streets and may cause damage through leaks or projects to replace or repair the water lines. However, we found that the city did not know the true annual cost of the damage its water, sewer, and refuse utilities caused to its roadways. Therefore, we concluded that the city violated Proposition 218 when it transferred nearly $900,000 annually from those utilities' funds to the city's general fund to pay for that roadway damage because it could not demonstrate how it knew that was the appropriate amount to transfer. The city received the results of a cost study in June 2022 that determined the cost of roadway damage that the city could attribute to the utilities to be a collective $688,000 annually. The consultant's report noted that the estimated cost of the damage was conservative, because it included only certain types of damage caused by the utilities.

Lindsay's director of finance stated that the city has not updated the amount it transfers from the utility funds since it received the cost study in 2022. The director started in her position with the city in 2024 and did not know why the city had not yet adjusted the transfer amounts. The director of finance anticipates that the city will revise the transfer amounts in January 2025. She further asserted that the city would review the transfer amounts every five years. Until it adjusts the amount it transfers for street repairs, the city continues to expose itself to liability under Proposition 218.

Corrective Action:

The city has adjusted the transfers to be made for current year. The rates have been adjusted to include the CCI of the past two years that have passed since the study was completed in 2022. The water fund is to transfer $105,741; the sewer funds is to transfer $83,361 and the refuse fund is to transfer $633,765.

The city finance department is responsible for ensuring this is met.

Timeline: completed

HIGH-RISK AREA #3

Insufficient Planning for Federal Assistance Funds

Status: We conclude that Lindsay has fully addressed this risk area by developing a plan for spending its federal funds.

Corrective Action:

None to be taken.

HIGH-RISK AREA #4

Inadequate Enterprise Fund Balances

Status: We conclude that Lindsay has partially addressed this risk area by developing a plan to build and maintain its fund balances, but risks remain for its water fund.

In our August 2021 audit, we noted that Lindsay's annual deficits and loan forgiveness had led to concerning deficit balances in two of the city's enterprise funds—the water and sewer funds. We recommended that the city develop and implement a plan to build and maintain these balances.

In June 2022, the city adopted a fiscal sustainability and financial improvement plan for the water and sewer funds that included provisions for outlining infrastructure replacement schedules, projecting cash flows and fiscal forecasts, and establishing contingency reserve policies for the water and sewer funds. Further, because the city reinstated the loans we describe under High-Risk Area #1, the unrestricted net position of the water fund is no longer negative. Nonetheless, the net position of the water fund depends significantly on the repayment of approximately $1.8 million as of the end of fiscal year 2022–23, which the city does not expect to fully repay until fiscal year 2049–50.

A more direct measurement of the financial health of the city's enterprise funds is whether they can sustain themselves or require subsidies. As Table 3 shows, the city's water fund has incurred operating deficits in fiscal years 2020–21 through 2022–23, and the sewer fund has been self-sustaining. The city approved water rate increases in October 2024, and those increases will go into effect over the next four to five years, with the first of the increases to take effect in January 2025. Establishing appropriate rates will assist the city in effectively operating its water utility.

Corrective Action:

The city has gone through the prop 218 process to increase the water and sewer rates. The new water and sewer rates went into effect as of January 2025. The new rates are projected to make the water and wastewater accounts whole at the conclusion of year one allowing a reserve to build. It is projected that the reserve meets $1 million in 5 years to address uncertain events such as a well going down or unforeseen costs with the water and wastewater infrastructure. As stated in High-Risk #1 The city is also working to reduce the overall general fund expenditures.

The city management is responsible for ensuring this is met.

Timeline: in progress and expected to be completed by June 30, 2025

HIGH-RISK AREA #5

Service Fees Did Not Cover Costs

Status: We conclude that Lindsay has partially addressed this risk area. It developed a fee study and improved its accounting system, but it must address other weaknesses in its cash receipt processing.

In our August 2021 audit, we raised concerns that because it did not periodically review and update its fees and rates, Lindsay had not ensured that it collected sufficient revenue to cover the costs of services it provided. Further, we noted that limitations in its accounting system made the city unable to identify the precise amount of revenue it collects from some of its fees and rates. Although the city addressed the issues we identified in our prior report, we identified other issues during this audit that raise concerns.

In December 2022, the city council adopted a new citywide fee schedule to set city fees at the same level as the full cost the city incurred to support the various activities for which it charged user fees, such as issuing plumbing or electrical permits. The city council also approved an amendment to the fee schedule in July 2024. City staff proposed that amendment to increase certain fees they had either listed incorrectly or had left out of the schedule of fee increases the city approved in December 2022. We also confirmed that the city's accounting system has the capacity to track the revenue it collects from the fees it charges and that the city has established revenue accounts in that system for many of its fees.

However, as part of this audit, we identified other factors related to the city's fees and rates that demonstrate that this area remains a risk to Lindsay. The city's external auditor identified internal control weaknesses in its fiscal year 2022–23 audit. Specifically, for one city department's fees, a single individual handled deposits of fee revenue and did so without preparing proper supporting documentation. Deposits that do not include supporting documentation leave a city at risk of misappropriation of funds. Further, city staff did not reconcile cash receipts from two departments to the city's general ledger, which leaves Lindsay susceptible to the potential for misappropriation of fee revenue. Without proper controls over its cash receipt processes, the city cannot ensure that it is correctly collecting and recording its actual fee revenues, and it increases its risk that it does not handle collected cash properly. The city's director of finance stated that the city plans to centralize the fee collection process to better control fee collection and to better assure the city that its staff appropriately handle all fee revenue.

Corrective Action:

> *The city plans to adopt strong internal controls which would include centralizing all processes with fiscal oversight. Internal controls shall include every transaction having proper documentation to support each transaction, proper cash handling procedures followed, appropriate personnel access, fees schedule structures to cover costs of departmental expenditures, proper expenditure oversight and purchasing controls to maintain cost integrity, and segregation of duties to reduce the risk of fraud, misappropriation of funds and misuse of funds.*
>
> *The city will create standard operating procedures outlining procedures to be followed as well as what positions are responsible also addressing segregation of duties.*
>
> *The city management is responsible for ensuring this is met.*
>
> *Timeline: address internal controls immediately to be able to show improvement by June 30, 2025*

HIGH-RISK AREA #6

No Long-Range Financial Planning

Status: We conclude that Lindsay has partially addressed this risk area. It has developed a financial improvement plan, but it has not kept up with the financial forecasting requirements of that plan.

In our August 2021 audit, we raised concerns that, although Lindsay had taken some steps to improve its financial position in the short term, the city had no clear plan for its long-term financial decision-making. We noted that the GFOA recommended that all governments regularly engage in long-term financial planning as part of their overall strategic planning efforts, and that long-term financial planning should include key elements, such as revenue and expenditure forecasts, strategies for achieving and maintaining financial stability, and a process for periodically reviewing and updating that plan. In this audit, we determined that Lindsay has partially addressed this risk area. In February 2022, the city council approved a Fiscal Sustainability and Financial Administration Improvement Plan (financial improvement plan). The financial improvement plan established that the city would create annual five-year long-range fiscal forecasts, identify challenges to the city's continued financial health, and take steps to reduce expenditures or increase revenues when the city is projecting a deficit. The financial improvement plan also included an initial five-year forecast of the condition of the city's general fund.

Because the financial improvement plan calls for the city to perform the five-year long-range fiscal forecast annually, we expected at the time of our audit that the city would have already conducted two additional forecasts beyond the initial version included in the February 2022 financial improvement plan. However, the director of finance confirmed that the city has not performed any updates to its long-range financial forecast. She said that the city intends to include updated forecasts in future city budgets. As we describe earlier, at the end of fiscal year 2022–23, Lindsay had negative general fund reserves. The city would likely benefit from following through with its long-range financial forecasting so that it can better anticipate its revenue and expenditures and take steps as necessary to improve its poor financial condition.

Corrective Action:

> *The director of finance has created reports for city council and management that are meaningful to make educated decisions. Previously council was not provided budget updates or reports that had revenues and expenditures in one place, which caused council to approve a negative $1.7 million budget in prior year. The director of finance is now educating council on budget and how to read each report presented to provide a better understanding of the city finances. As stated in High-Risk #1 the city is working to resolve the negative fund balance to establish a reserve by reducing salary and benefit costs and exploring zero based budgeting to eliminate the deficit fund balance in the first year (2025) to begin building a reserve of at least a 3-month average of expenditures in year two (2026).*
>
> *The city management is responsible for ensuring this is met.*
>
> *Timeline: address deficit in year one (2025), establish reserve at end of year one in year two (2026) and have a sufficient reserve by year three (2027), once first year deficit is addressed a 5-year projection will be presented at least bi annually in addition to each budget adoption.*

HIGH-RISK AREA #7

No Formal Strategies to Address Its Rising Employee Retirement Costs

Status: We conclude that Lindsay has not addressed this risk area. The city still needs to develop and implement strategies to reduce its retiree health benefit costs.

In our August 2021 audit, we raised concerns that Lindsay had not prefunded its OPEB liabilities as the GFOA recommends. Lindsay's OPEB benefits include continuing medical, dental, and vision coverage to its qualified retired employees. Further, we stated that the lack of prefunding had caused the city's OPEB liabilities to increase by 36 percent from fiscal years 2017–18 through 2019–20. In addition, we noted that the city's pension costs could place a financial burden on the city unless it took substantial action.

The city's financial improvement plan includes a commitment to fully fund the costs of the city's retirement plans and hold annual discussions of the city's progress in funding its pension program. Related to OPEB, Lindsay's ACFRs show an overall decline in its OPEB liability, from nearly $2 million at the end of fiscal year 2021–22 to $1.4 million at the end of fiscal year 2022–23. However, a significant factor in this decline were changes in the assumptions the city made to estimate the OPEB liability, rather than any change in the city's approach to funding OPEB. Similar to the condition at the time of our original audit, the city had not prefunded its OPEB in fiscal year 2022–23.

The director of finance explained that the city would develop a plan by June 2025 to help reduce its OPEB liabilities. She noted that she would work with the city manager to look into the city's options to reduce its OPEB costs. Among the options the city would consider will be establishing an OPEB trust to prefund its OPEB liabilities and negotiating with the unions in preparation for the next bargaining agreement to consider requiring current employees to begin contributing to the future costs of their retirement health care benefits, among other strategies. As we described in our August 2021 audit report, if the city does not require its employees to begin contributing to their OPEB, Lindsay will likely have to make higher contributions from its general fund, displacing other spending priorities.

Corrective Action:

> *The city manager and negotiation team will address personnel costs through negotiations with the established unions. The state auditor will be kept informed during this process.*
>
> *The City Manager and negotiation team is responsible for ensuring this is met.*
>
> *Timeline: prepare a plan in year one (2025) and establish funding within year two (2026).*

HIGH-RISK AREA #8

Lack of Planning for Public Safety Training and Equipment Needs

Status: We conclude that Lindsay has fully addressed this risk area. It has evaluated the effectiveness of its combined police and fire department, ensured that its firefighters have appropriate training, and adopted a fleet management and replacement policy covering its police and fire vehicles.

Corrective Action:

None to be taken.

City of Lindsay

It Must Take Substantial Action to Address Its Financial Problems and Its Inadequate Management Practices

August 2021

REPORT 2020-804

CALIFORNIA STATE AUDITOR
621 Capitol Mall, Suite 1200 | Sacramento | CA | 95814

916.445.0255 | TTY **916.445.0033**

For complaints of state employee misconduct,
contact us through the **Whistleblower Hotline**:
1.800.952.5665

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, *at* 916.445.0255

August 26, 2021
2020-804

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office presents this audit report regarding the city of Lindsay (Lindsay), which we conducted as part of our high-risk local government agency audit program. Our assessment focused on Lindsay's financial and operational risks, and we found that the city is at high risk because of its financial problems and management practices.

Lindsay has improved the condition of its general fund over the past several fiscal years, and it appears to have recently met recommended reserve levels. However, this apparent turnaround was largely because the city forgave more than $6 million in loans from restricted funds to its general fund, a violation of Proposition 218, which restricts the use of certain local government funds. This unlawful action has exposed the city to possible litigation from taxpayers and utility ratepayers, and it obscures what we estimate to be a general fund deficit of more than $3 million as of June 30, 2020, instead of its apparent surplus.

Because of both Lindsay's loan forgiveness and the fact that it has not regularly updated the fees and rates it charges for city services and utilities, it lacks resources in some of its utility funds. The city's water fund recently incurred a nearly $1 million deficit and is unable to pay for necessary infrastructure projects, forcing Lindsay to seek to increase ratepayers' water rates. Not only has Lindsay forgone revenue by not adjusting the majority of its fees and rates for years, its general fund must now cover some of the city's costs to provide utilities and other services. Finally, the city lacks a long-term financial plan to adequately address its financial problems, which include the need to pay for its aging public safety vehicles and retirement obligations, such as its retiree health care costs.

Among the actions we believe the city should take to address our concerns, we recommend that Lindsay develop a plan to fully repay its utility funds for the loans it unlawfully forgave, implement a plan to update its fees and rates, and formally adopt a long-term financial plan that addresses its liabilities and financial stability.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

Selected Abbreviations Used in This Report

CalPERS	California Public Employees' Retirement System
GFOA	Government Finance Officers Association
HCD	California Department of Housing and Community Development
OPEB	other post-employment benefit

HIGH RISK ISSUES

City of Lindsay, Tulare County

Risk Designation: **High Risk**

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Risks the City of Lindsay Faces

The City of Lindsay (Lindsay) faces several significant risks related to its financial and operational management, and it would benefit from better long-term planning. In November 2019, the California State Auditor's Office (State Auditor) informed the city that Lindsay had been selected for review under the high-risk local government agency audit program. This program authorizes the State Auditor to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement or that face major challenges associated with their economy, efficiency, or effectiveness.

We first identified that Lindsay might be at high risk based on publicly available audited financial statements and unaudited pension-related information from the California Public Employees' Retirement System. Table 1 summarizes our risk assessment of the last three fiscal years of Lindsay's financial indicators. We conducted a review in December 2019 and identified concerns regarding its financial stability, including its continued operating deficits, its use of funds restricted for other purposes to support the general fund, and other operational risks, such as its approach to providing public safety with combined police and fire services. For example, Lindsay used funds from its water utility to pay general city expenses, a violation of state law, and it has not planned for the expensive replacement of very old vehicles that its Public Safety Department is using. After approval from the Joint Legislative Audit Committee, we began our audit of the city in January 2021.

Table 1
Some of Lindsay's Risk Indicator Levels Have Recently Improved

	FISCAL YEAR		
	2017–18	2018–19	2019–20
General Fund Reserves	High	High	Low*
Debt Burden	High	High	High
Liquidity	High	High	Low*
Revenue Trends	Low	Low	Moderate
Pension Obligations	Moderate	Moderate	Moderate
Pension Funding	Moderate	Moderate	Moderate
Pension Costs	Moderate	Moderate	Moderate
Future Pension Costs	High	High	High
Other Post-Employment Benefit (OPEB) Obligations	Low	Low	Low
OPEB Funding	High	High	High

Source: Analysis of risk indicator levels.

* The improvement in Lindsay's general fund reserves and liquidity levels that resulted in its "low risk" ratings for fiscal year 2019–20 are misleading because they are primarily the result of unlawful forgiveness of loans from its utility funds to its general fund in violation of Proposition 218, which we describe further in the report.

Lindsay has taken several steps to improve its financial condition; for example, it has reduced expenditures and increased revenues through an increased sales tax and by permitting certain cannabis businesses. However, our audit found that the city has made some questionable decisions that violated state law, and until it addresses these decisions, it will struggle to create a sustainable financial future. For example, as of June 30, 2020, the city had nearly a $3.2 million surplus in its general fund, the result of turning its $9.5 million general fund deficit into a surplus over the course of the three previous fiscal years. However, this turnaround was largely accomplished by forgiving major loans from its utility funds to its general fund in 2019. The city's decision to forgive these loans violated Proposition 218, which was passed in 1996 and restricts how cities can use funds derived from property-related fees and charges, such as for water and sewer utility services. Because the city used fees paid by utility ratepayers for general government purposes rather than for utility projects and expenses, the city may be liable for a repayment of more than $6 million. If utility ratepayers decide to sue, are successful, and obtain monetary relief, court orders, or attorneys' fees, the city will face significant financial hardship, and it would have a negative general fund balance of more than $3 million instead of its current surplus. We also found that Lindsay violated a different provision of Proposition 218 through fund transfers to its Street Improvement Program (streets program). Although Proposition 218 restricts the use of utility funds, a nonutility fund may be reimbursed for costs it incurs on behalf of the utility, so long as the city demonstrates that those amounts reasonably represent the cost of street repairs and maintenance that result from damage, such as leaking, caused by those utilities. However, we found that Lindsay has failed to demonstrate that the nearly $900,000 it has been annually transferring from its utility funds to the streets program comply with that provision of the law.

As a result of Lindsay's unlawful loan forgiveness, as well as the fact that it has not regularly updated the fees and rates it charges for city services and utilities, it lacks resources in some of its utility funds, which creates risk to its ability to meet its infrastructure needs. For example, when Lindsay forgave nearly $2 million in loans from its Water Fund to its general fund, it no longer had the capital necessary to pay for certain water infrastructure projects in the city. Recently, because the city's Water Fund has incurred a nearly $1 million deficit, Lindsay has sought to increase ratepayers' water rates to fund its utility operations and future infrastructure needs. In general though, Lindsay has not adjusted the majority of its fees and rates for years, likely resulting in missed revenues. These outdated rates may no longer cover the city's costs to provide utilities, such as the cost to maintain its water system, and other services. As a result, the city's general fund must cover these costs, but it has a limited capacity to do so.

Lindsay would benefit from better long-term planning. Although the city has worked to increase revenues, reduce expenses, and decrease its liabilities, it must make additional substantial efforts to address its financial management problems and ensure that it can afford to maintain its services for its residents into the future. Lindsay does not currently have a long-term financial plan, which would provide useful insight into its future financial situation and help the city develop and deploy strategies for long-term sustainability. Instead, Lindsay has relied only on its annual budget process to address its short-term financial problems. The city also lacks plans to address its growing costs for its employees' post-employment health benefits and to replace its aging police and firefighting vehicles. Without a long-term financial plan to ensure that the city is proactive and transparent about addressing and resolving its fiscal challenges, including its Water Fund deficit, Lindsay continues to be at high financial risk.

To help Lindsay address the risk factors we identified, we developed numerous recommendations the city should implement, including the following:

- Address past violations of state law by developing and implementing a plan to fully repay its utility funds and by documenting how the amount of utility funds it transfers to its streets program accurately reflects the allowable costs.

- Develop and implement a plan that includes an update to its fees and rates to ensure that it has the necessary resources in its enterprise funds to pay for needed infrastructure.

- Formally adopt a long-term financial plan that addresses its liabilities, including its post-employment benefit liabilities and all of its infrastructure and capital needs.

Agency's Proposed Corrective Action

Lindsay disagreed with several of our conclusions, including that its unlawful loan forgiveness violated Proposition 218. Nonetheless, it did agree with some of our recommendations and highlighted various efforts that it has taken or plans to take to address its financial condition. However, because Lindsay did not submit a corrective action plan as part of its response, we look forward to receiving the plan by November 2021 to understand the specific actions it has undertaken or plans to take to address the conditions that caused us to designate it as high risk.

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Introduction

The city of Lindsay (Lindsay), located in Tulare County, has approximately 13,000 residents. Lindsay is a *charter city* and therefore has authority over its municipal affairs and may establish certain local ordinances beyond those state law allows for *general law cities*.[1] For fiscal year 2020–21, Lindsay had 45 full-time budgeted positions. City staff provide many services to residents, including public safety, utilities, and recreational activities. Lindsay has combined its police and fire services into a single public safety department, and its practice is to cross-train its police officers in firefighting. The city operates under a council-manager form of government. Thus, the city's voters elect officials to a five-member city council serving staggered four-year terms, and the council in turn appoints a city manager to execute the council's actions and to act as the chief executive and administrative officer of the city. The city manager is also responsible for keeping the city council fully informed about Lindsay's financial condition, including any financial challenges.

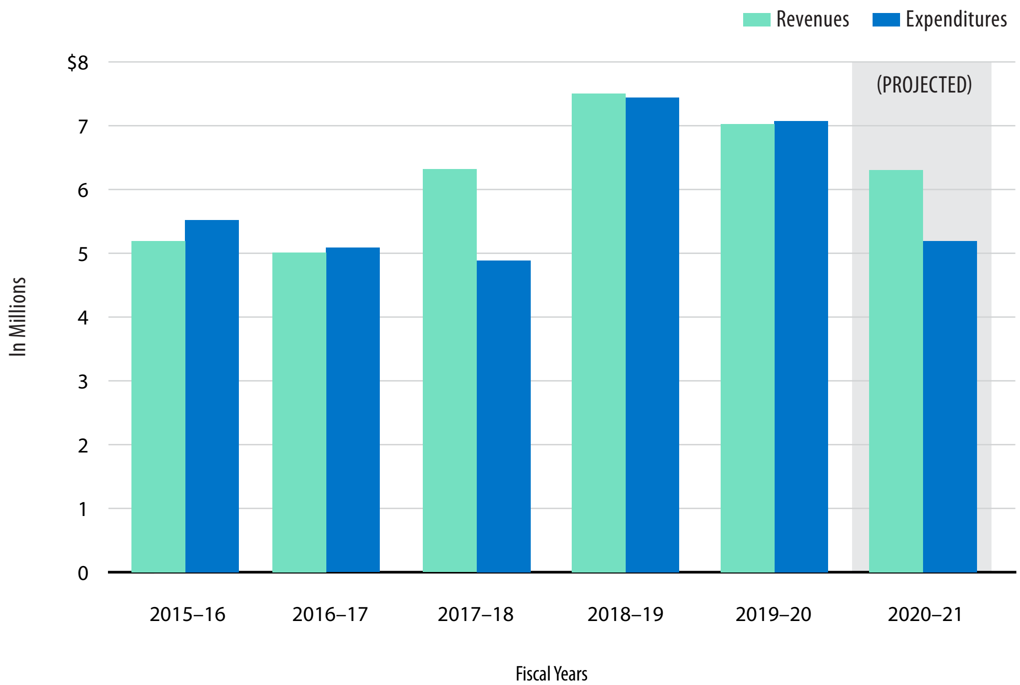
Background

Lindsay has undergone changes in important leadership positions, including a complete turnover in its city council members during the last three years. In March 2020, Lindsay hired a new city manager following the January 2020 resignation of the former interim city manager, who had simultaneously served as the finance director. The city hired a permanent finance director in May 2021, after filling the role on an interim basis with its subsequent city manager and later with a contracted finance director. The city manager and finance department prepare and administer the city's annual budget, and the city council is responsible for safeguarding the city's financial health and adopting its budget. In 2018 the city's voters elected two of the current city council members. In 2020 the three other more experienced members stepped down from their positions. Just before stepping down, the five members of the city council appointed—in lieu of an election—three new members to replace the council members who were stepping down.

Lindsay's general fund makes up nearly half of the city's overall operating budget. For fiscal year 2020–21, Lindsay adopted a $15 million operating budget, of which the general fund accounted for about $6 million. Lindsay's general fund revenues have fluctuated in the last five fiscal years, as shown in Figure 1. The city's main source of income for its general fund is tax revenue, accounting for more than $5 million in fiscal year 2019–20. The city also annually transfers nearly $900,000 from its utility funds to the general fund's Street Improvement Program (streets program) to pay for street repair and maintenance. The remainder of the city's general fund revenue comes from other smaller sources, including revenue from licenses, permits, and fees. Under state law, Lindsay can use general funds for any legitimate governmental purpose, including funding basic city operations.

1 Unlike a general law city, charter cities have the authority to adopt ordinances and regulations regarding municipal affairs that may be inconsistent with state law that is otherwise applicable to cities.

Figure 1
Lindsay's General Fund Revenues and Expenditures Have Fluctuated Over the Last Five Fiscal Years

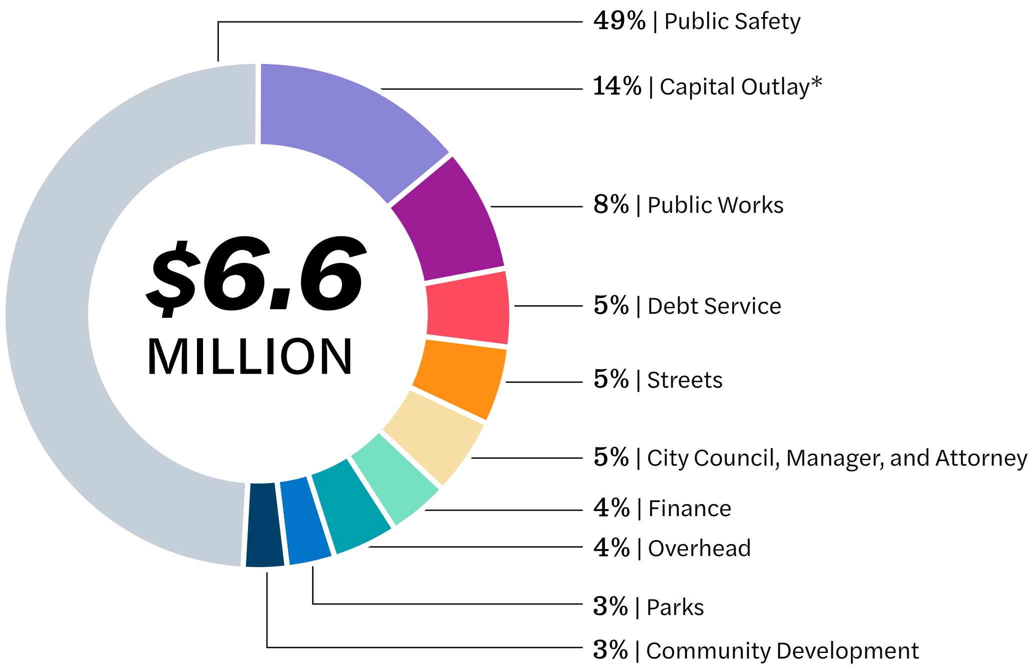


Source: Lindsay's audited financial statements for fiscal years 2015–16 through 2019–20 and its fiscal year 2021–22 budget.

Additionally, the city has revenue in its enterprise funds, which come from fees charged to users for city services, such as water distribution and waste collection. Proposition 218 requires the city to spend revenues derived from property-related fees and charges to benefit the users of those city services. Some enterprise funds that Proposition 218 affects include the Water Fund and the Sewer Fund, which property owners pay into for those services. Lindsay also maintains a Wellness Center Fund that users of its facilities pay to support; because property-related fees and charges are not used to support the fund, Proposition 218 does not apply to the Wellness Center Fund.

As highlighted in Figure 2, the majority of Lindsay's general fund expenditures pay for services such as public safety, public works, streets, and parks. The city also pays nearly $200,000 annually for bond repayments for the construction of the McDermont Field House sports complex. In 2008 the city completed construction of the sports complex, which is in a former citrus packing warehouse, intending for it to become a regional draw for sports competitions and to generate revenue for the city. However, the sports complex sustained annual operating losses of nearly $1 million until the city leased the complex to a third-party operator in December 2017, which we describe further in the report.

Figure 2
Lindsay's Budgeted General Fund Expenditures for Fiscal Year 2021–22, by Category



Source: Lindsay's adopted budget for fiscal year 2021–22.

* The Capital Outlay category covers capital projects such as building improvements at city hall and purchasing police vehicles.

Lindsay's Actions Raise Doubt About the Financial Stability of Its General Fund

In Improving Its Financial Condition, the City Violated State Law, Exposing It to Litigation

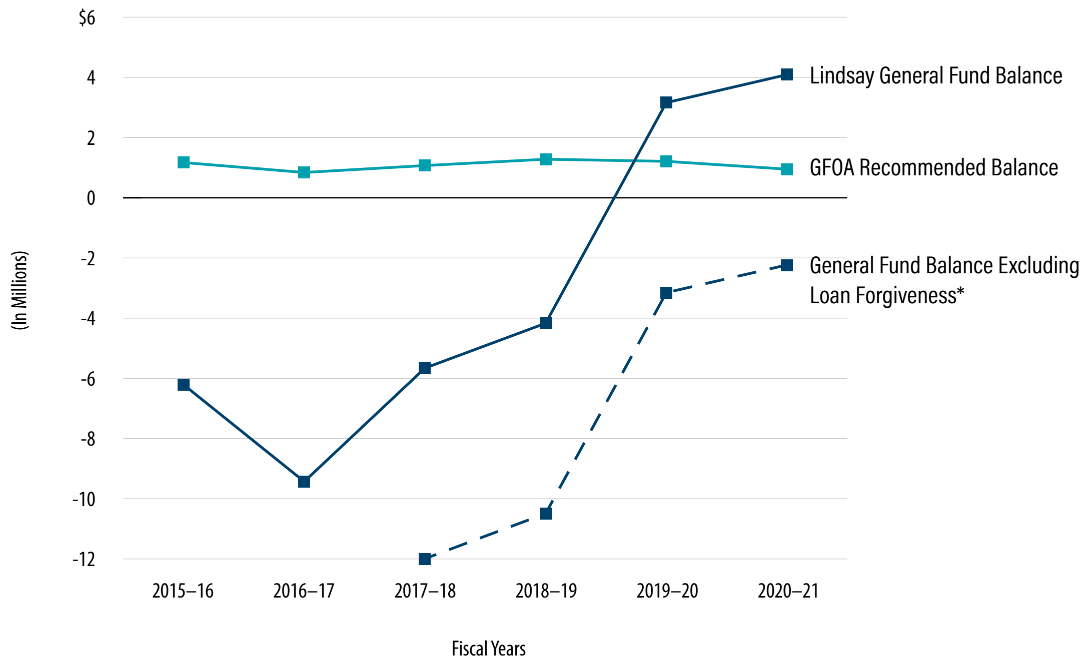
Lindsay artificially improved its financial condition by unlawfully forgiving loans, which created liabilities that undermine its future financial condition. After years of deficits, the city achieved a general fund surplus of nearly $3.2 million in fiscal year 2019–20, a $12.6 million improvement from fiscal year 2016–17, when it had a deficit of nearly $9.5 million. The general fund balance is the accumulated amount of revenues over expenditures. However, much of the improvement in Lindsay's general fund balance was due to a substantial loan forgiveness decision that was unlawful. The city violated state law when it forgave $6.3 million in loans that it had previously made to its general fund, including about $2 million each from its Water Fund and Sewer Fund with the remainder coming from other funds, including its Street Improvement Fund. Specifically, state law as amended by Proposition 218, restricts cities from using revenues derived from property-related fees and charges to pay for general government operations. Although state law allows a city to temporarily loan restricted funds to its general fund, here the city's forgiveness effectively converted those restricted funds into general funds, a violation of state law. Half of the city's financial improvement since fiscal year 2016–17 thus was a result of this unlawful action. Without the loan forgiveness, we estimate that Lindsay's general fund would have had a $3.2 million deficit in fiscal year 2019–20 rather than the surplus it presented in its financial statements.

Although the city's recent general fund balance appears to have met recommended levels, Lindsay's loan forgiveness makes that surplus misleading. The Government Finance Officers Association (GFOA) recommends that cities maintain a general fund balance sufficient to cover at least two months of operating expenses.[2] The GFOA makes this recommendation so that cities can mitigate current and future financial risks, including unplanned expenditures or revenue shortfalls. However, as Figure 3 shows, from fiscal years 2015–16 through 2018–19, Lindsay's general fund balance was below the GFOA recommendation. The city finally met the minimum level in fiscal year 2019–20 but only by inappropriately forgiving the $6.3 million in loans.

To sustain its basic operations in the face of budget deficits over many years, Lindsay made transfers totaling $6.3 million from its restricted funds to its general fund and subsequently formalized those transfers as loans, which was allowable; but then in February 2019, it forgave the loans in violation of state law. Table 2 shows the amount of each restricted fund that the city transferred to its general fund. The city's financial statements show that it made the transfers over several years, at least as far back as fiscal year 2009–10, so that its general fund could maintain the city's basic operations. Before October 2017, the city inappropriately presented these transfers in its annual financial statements as short-term loans that it expected to pay back within one year. However, the city's external auditor

2 The GFOA represents public finance officials, and its mission is to advance excellence in public finance, which it does by publishing best practices for governments to follow.

Figure 3
Lindsay Recently Met the Minimum Recommended General Fund Balance Threshold Because of Its Unlawful Loan Forgiveness



Source: Lindsay's audited financial statements, adopted budget for fiscal year 2021–22, and GFOA best practices.

Note: The general fund balance noted for fiscal year 2020–21 is a projection, as the city does not expect to complete the financial audit of these numbers until 2022.

* Although Lindsay forgave the loans in February 2019, the city did so as part of finalizing its fiscal year 2017–18 financial statements. For accounting purposes, the forgiveness took place in that fiscal year and therefore first appears in the city's fiscal year 2017–18 financial statements.

had recommended since at least fiscal year 2009–10 that the city stop presenting them as *short-term loans* because its general fund did not have enough funds to repay them on that schedule. State law allows a city to loan money from a restricted fund to the general fund if the action meets three conditions: the restricted fund has a surplus, the loan does not interfere with the purpose of the restricted fund, and the borrowing fund repays the loan as soon as possible. In October 2017, the city council formalized the loans to its general fund, changing them from short-term to long-term with interest and with dates on which it expected to repay the funds. The city did not violate state law by formalizing the loans, and its actions would have been appropriate if it had eventually repaid the loans and the interest, but it chose not to do so.

Instead, Lindsay forgave the loans because it believed that it did not have better options for resolving its financial difficulties. In its fiscal year 2016–17 financial audit, the city's external auditor concluded that the loans raised significant doubt about the city's ability to meet its financial obligations because it could not repay them in a timely manner. In response, in February 2019 staff asked the city council to formally forgive the $6.3 million in loans to the general fund, which would resolve the external auditor's finding. Specifically, staff noted in that request that if the city did not forgive the loans, it would receive a finding from its external auditor on its upcoming financial statements that the city was insolvent. However, the staff report did not identify other options for the city to consider when it forgave the loans, such as adjusting the repayment schedule for the loans or issuing municipal bonds to cover its deficits. The former finance director indicated that the city was aware that forgiving the loans potentially violated state law and that it did consider other options before forgiving the loans, including adjusting repayment schedules and bankruptcy. He indicated that the city ruled out those options and that forgiving the loans was the only option it had at the time to address the city's financial difficulties. However, as we discuss above, forgiving the loans violated state law, and we therefore do not believe it was an appropriate action for the city to take.

By forgiving the loans, the city violated Proposition 218, and doing so has exposed it to possible litigation from taxpayers and utility ratepayers. Specifically, Proposition 218 amended the California Constitution to prohibit local governments from spending revenues from property-related fees and charges on general government operations. Lindsay's restricted funds include its utility funds, which receive revenue from property-related fees charged to utility ratepayers, which we refer to as *utility rates.* By forgiving the loans, the city transferred $6.3 million from its utility funds to its general fund, including about $2 million each from the Water Fund and the Sewer Fund, as Table 2 shows. The city uses its general fund to pay for services including police, fire, and city administration. By transferring revenues from property-related fees to pay for these services, the city violated Proposition 218. In fact, the city has known about this violation for several years because its external auditor identified in each of the city's past three financial audits that its actions had violated Proposition 218. The city manager indicated that the city would like to repay the Water Fund and Sewer Fund, but explained that it has only informally discussed this potential repayment and does not have a formal plan for doing so. However, because the city currently does not have a sufficient general fund balance to repay these loans, it would need to do so over multiple years. Although the city confirmed that no one has made a claim for refund or sued it yet, its ratepayers may choose to do so, which could result in the city being liable for monetary relief, court orders, and attorneys' fees if the ratepayers are successful.

Table 2
Lindsay Transferred $6.3 Million From Restricted Funds to Its General Fund Over Many Years (In Thousands)

FUND	AMOUNT TRANSFERRED
Street Improvement*	$1,557
Water	1,907
Sewer	2,108
Refuse	402
Other†	358
Total	**$6,332**

Source: Staff report, city council resolution, and audited financial statements.

* Lindsay's Street Improvement Fund contains dollars from the Water, Sewer, and Refuse utility funds. However, the city did not provide a breakdown of the amounts within the Street Improvement Fund that came from each of the utility funds.

† Other funds include a Park Improvement Fund and a Storm Drain Fund.

Lindsay Has Not Ensured That Its Streets Program Complies With State Law

In addition to its unlawful loan forgiveness, Lindsay has also violated Proposition 218 by transferring money from its utility funds to pay for its streets program. As described previously, Proposition 218 restricts cities from using revenues derived from property-related fees and charges, such as utility rates, to pay for general government operations. However, state law does allow local governments to charge their utilities for the cost of street repairs and maintenance that result from damage by those utilities. For example, the water utility's water lines run underneath city streets and may cause damage to the streets through leaks and projects to replace or repair the lines. Under Proposition 218, the city must demonstrate that a charge for repairs or replacement reasonably represents these costs.

In 2004 the city published a study of its water, sewer, and refuse rates and increased them, in part, to fund its streets program, which pays for the damage to the streets caused by the city's utility operations. However, Lindsay did not demonstrate that the amount generated by the rate increases represented the actual costs of the damage those utilities caused. For instance, Lindsay could have had the engineer in charge of the study analyze and report the damage that each type of utility had caused to its streets so as to identify what the appropriate amount would be to charge each fund going forward. Instead, the city began transferring a flat 23.6 percent of all its utility rates to its streets program and continues to do so today. These transfers averaged nearly $900,000 annually during fiscal years 2017–18 through 2019–20.

The finance director indicated that she does not know whether the 23.6 percent is currently appropriate. For example, the current rate does not account for the greater wear that the finance director indicated heavier refuse vehicles are causing to its roads. However, the city acknowledged that it has never performed an analysis to demonstrate how much damage its utilities cause and how much it should be paying to the streets program to cover these damages. Until it performs this analysis, the city will not know whether it is using funds to pay for street projects that it should be spending instead on utility infrastructure. In addition, the city may be using utility ratepayer funds for nonutility purposes, such as paying to improve streets that the city's utilities did not actually damage, which again state law does not allow. If so, this unsupported transfer would violate Proposition 218 and could expose Lindsay to litigation from its taxpayers and utility ratepayers.

Lindsay Has Found New Sources of Revenue in Recent Years, but These Have Not Adequately Improved Its Financial Condition

To improve its financial stability, Lindsay has employed several approaches to generate additional revenue. For example, the city council placed a proposed local 1 percent increase to its sales tax on the ballot, which it estimated would generate approximately $900,000 annually and which Lindsay's voters approved in June 2017. The tax is a general sales tax, and the city may use its revenue for any legitimate government purpose, such as public safety, infrastructure, and general services. The tax became effective in October 2017 and has generated $1.1 million in revenue annually—more than the city initially projected. In fiscal year 2019–20, the sales tax accounted for more than 15 percent of Lindsay's general revenues. Lindsay's external auditor acknowledged in the city's fiscal year 2018–19 financial statements that the sales tax is bringing needed revenue to the city.

The city has also worked to increase revenue by adopting an ordinance in May 2019 permitting certain cannabis businesses, including retailers and cultivators, to operate in the city. State law authorizes local governments to regulate or ban these activities, and the city's ordinance allows it to issue permits and collect fees. The city subsequently collected nearly $100,000 in revenue from cannabis businesses for fiscal year 2019–20, although that was less than the $125,000 it had budgeted for the year. However, the city budgeted $175,000 in revenue earned from cannabis retailers and cultivators for fiscal year 2020–21, and cannabis-related revenues exceeded those expectations. The city now projects in its budget for fiscal year 2021–22 that it will receive $300,000 in cannabis‑related revenues. The city manager believes that the expansion of the cannabis industry in Lindsay is a key component to increasing the city's revenue.

In addition, Lindsay will receive significant revenue from the federal government for COVID‑19 relief that it can use for a variety of purposes. In March 2021, Congress passed the $2 trillion American Rescue Plan Act of 2021 (American Rescue Plan), which includes funding for state and local governments based on their populations. Federal law allows cities to use these funds to respond to the negative effects of the COVID‑19 pandemic, to make up for lost revenues, or to make investments in utility infrastructure. In June 2021, the federal government provided the first batch of funds to California, which is responsible for distributing the funds using a federal allocation formula for cities with populations under 50,000, which includes Lindsay. The American Rescue Plan requires states to distribute the funds using a population‑based formula. The Department of Finance has initially identified an allocation of $3.2 million to Lindsay over two years from that act, and the city should receive $1.6 million each year in 2021 and 2022.

Lindsay has not yet specifically planned how it will spend all of these funds. According to the city manager, the city intends to use at least part of the funding to perform needed capital work on its water and sewer infrastructure. In its fiscal year 2021–22 capital improvement plan, the city indicated it would use American Rescue Plan funding for some projects, but it did not identify which ones. Until it develops a plan that describes how it will spend these funds on its highest needs, the city risks not using them appropriately. For example, the city has various needs that the American Rescue Plan money could help address, such as to pay for services to help those of its residents most negatively affected by COVID‑19 and updating its water and sewer infrastructure. The city must determine which of its needs it will fund with the American Rescue Plan money.

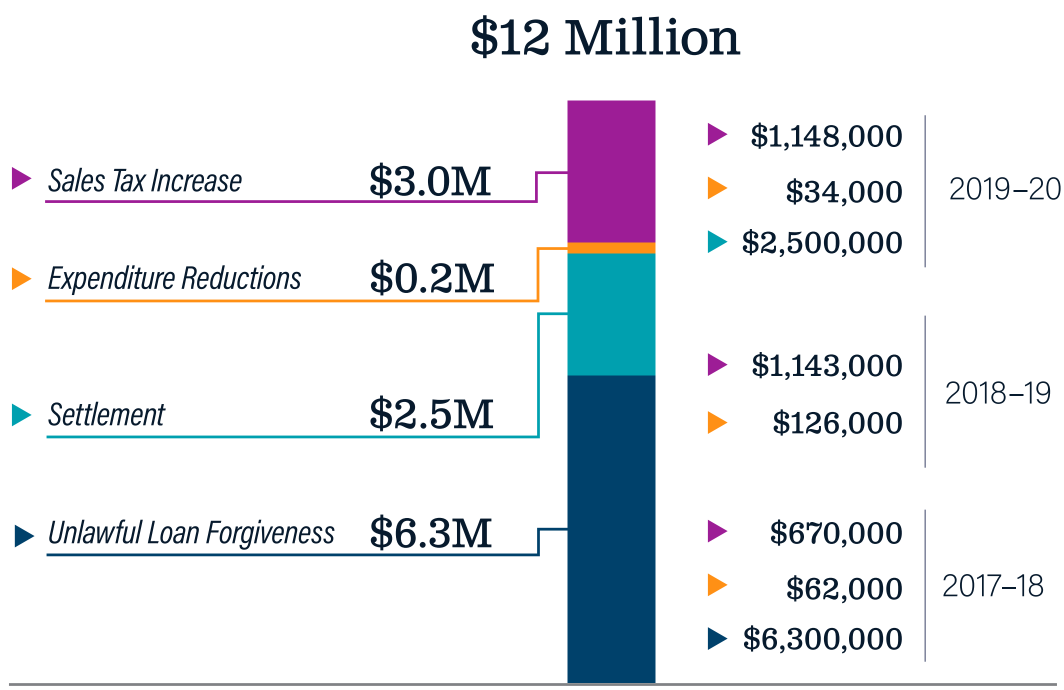
Similarly, in 2020 the city received other federal funding to help it respond to the COVID‑19 pandemic. Specifically, the city received $160,000 in federal COVID‑19 relief from the Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act, for COVID‑19‑related expenses. These funds had more restrictive provisions than the American Rescue Plan funds, and the city used them to pay its employees a hazard supplement for providing services that increased their risk of exposure to COVID‑19, as provided in the federal guidelines.

The City Reduced Some Liabilities and Expenditures, Which Partially Improved Its Finances, but Other Financial Problems Remain

Lindsay also improved its financial position by reducing expenditures and addressing several significant liabilities that were driving its general fund deficit. Between fiscal years 2016–17 and 2019–20, the city moved its unrestricted general fund balance from a nearly $9.5 million deficit to a nearly $3.2 million surplus. As Figure 4 shows, this approximately $12.6 million improvement primarily was the result of Lindsay's unlawful forgiving of loans and increasing its sales tax. In addition, Lindsay reached settlement agreements that reduced the impact of a large long‑term liability on the general fund.

Lindsay reduced its expenditures in several ways. Between fiscal years 2015–16 and 2019–20, it lowered its annual expenditures for operating the city government by $600,000, or 45 percent. A total of $400,000 of this reduction was before fiscal year 2016–17 and, as Figure 4 shows, about $200,000 was after fiscal year 2016–17. It achieved the $600,000 in reductions

Figure 4
Several Factors Contributed to Lindsay's General Fund Balance Turnaround From Fiscal Years 2016–17 Through 2019–20



Source: Lindsay's audited financial statements and city council minutes.

Note: From fiscal years 2016–17 through 2019–20, the city improved its general fund balance by $12.6 million in total. Figure 4 shows the impact of specific actions the city took to improve the general fund balance and does not account for all of the general fund improvement.

by reducing staff, among other things. Specifically, the city eliminated 36 positions, nearly half of its previous staffing level. Although the city manager believes the city has sufficient staff to provide essential services, he noted that further reductions to city staffing levels would negatively affect its ability to do so. Additionally, it limited staff training costs by approving only its most critical training needs, such as those related to its police officers.

Lindsay also previously operated a sports complex, which it built in 2008 to be a regional attraction and a revenue source for the city. Lindsay paid for its construction from its general fund. However, the sports complex's costs outpaced the revenues that it generated by more than $1 million each year in fiscal years 2015–16 and 2016–17, and by nearly $1 million in fiscal year 2017–18. In response to the city's financial challenges, in December 2017 the city council leased the sports complex to a third party, which became contractually responsible for all expenses associated with operating the complex. In entering into this lease, the city no longer had to incur the sport complex's operating costs, which were nearly $3 million in fiscal years 2015–16 and 2016–17, including the significant costs for its employees. However, the city continues to pay debt service costs of nearly $200,000 annually related to a loan it entered into in 2009 to cover the sports complex's operational cash shortfalls.

Lindsay could earn money from this agreement if the sports complex is profitable after the deduction of maintenance costs. Under the terms of the lease, the operator of the complex must pay half of its annual net profit to the city each year. In 2018, its first full year of operations, the third-party operator did earn a small profit, of which it shared $15,000 with the city. However, the third-party operator has not earned a profit since 2018.

Lindsay also saved money through legal settlements. In September 2020, Lindsay settled with the California Department of Housing and Community Development (HCD) over the city's inappropriate use of state and federal housing grant funds, which reduced its general fund deficit by $2.5 million. The city had inappropriately used HCD program funds to pay for city-sponsored activities and to cover operating deficits in its general fund. Between 2008 and 2017, Lindsay borrowed HCD program funds to pay for operating deficits in its general fund, sports complex, and Wellness Center (Wellness Center). A result of the settlement agreement is that Lindsay no longer has to reflect a $2.5 million liability in its general fund, which significantly improved that fund's balance. According to the terms of the settlement agreement, instead of requiring Lindsay to repay the $2.5 million immediately, HCD required the city to make an initial payment of $10,000, and 30 annual payments of roughly $90,000 thereafter.

Lindsay also reached a settlement agreement with the California Department of Transportation (Caltrans) that reduced some of the city's financial obligations but did not change its general fund balance. Specifically, Caltrans found that Lindsay had billed it for services, materials, and labor costs that the city could not support with source documentation and that Lindsay mismanaged construction change orders for multiple projects it completed using state funding in the early 2000s. Caltrans initially demanded that the city repay approximately $1 million in fiscal year 2016–17. Following negotiations, in 2019 the city accepted a settlement offer from Caltrans that required repayment of nearly $350,000, which the city must pay in equal installments over a seven-year term. Although this settlement did not increase the city's general fund balance, it significantly reduced the city's financial obligation to Caltrans and mitigated the potential financial burden of the repayment on the city's general fund.

Recommendations to Address This Risk

- *To address the $6.3 million it improperly transferred to its general fund, Lindsay should, by February 2022, re-establish the loans to its restricted funds, and develop and implement a plan to fully repay those funds.*

- *To make prudent investments from federal funding to address its highest needs, Lindsay should develop a plan by November 2021 for how it will effectively use all American Rescue Plan funds.*

- *To ensure that its transfers of utility funds to the streets program comply with state law, Lindsay should perform a study to determine the appropriate level of funding from its utility funds for that program by August 2022 and update that study every three to five years.*

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Lindsay Must Increase Its Efforts to Address Deficits in Its Enterprise Funds

Deficits and Inappropriate Loan Forgiveness Led to Negative Balances in the City's Enterprise Funds, Limiting Its Ability to Effectively Operate Its Utilities

Lindsay's annual deficits and loan forgiveness have led to negative balances in its enterprise funds. Table 3 provides information on the balances of three of the city's main enterprise funds from fiscal years 2015–16 through 2019–20. Each of these funds is responsible for receiving and spending revenue for specific utilities, such as water and sewer, or the city's recreational services, which the city provides through the Wellness Center Fund. Two of these funds, the Water Fund and Wellness Center Fund, are currently in hundreds of thousands of dollars of deficit.

The Water Fund's nearly $1 million deficit was caused by the city's loan forgiveness and by the city spending more than the fund receives in revenue from users. As we describe previously, in 2019 the city violated state law by forgiving a nearly $2 million loan from the Water Fund to its general fund. Lindsay forgave the loan because it believed that the general fund could not realistically repay the Water Fund; however, by doing so, the city created a deficit in the Water Fund of $585,000.[3] In addition, the Water Fund has operated at a loss in recent years, with operating deficits of $143,000 in fiscal year 2018–19 and $149,000 in fiscal year 2019–20. The cumulative effect of these two problems has led to a nearly $1 million negative balance in the Water Fund at the end of fiscal year 2019–20, which Table 3 shows.

This deficit in Lindsay's Water Fund is limiting the city's ability to effectively operate its water system. Specifically, the Water Fund has no money for capital improvements or unexpected repairs to keep the system running safely and efficiently. In a 2019 budget presentation, the city indicated that its Water Fund could not adequately fund needed projects, such as replacing a main water line or renovating a water storage tank. Similarly, in Lindsay's fiscal year 2019–20 financial audit, city management stated that the Water Fund has no money available for unplanned maintenance or other necessary capital improvements. The city

3 This deficit appears in the fiscal year 2017–18 financial statements because of the timing and method of the loan forgiveness.

Table 3
Lindsay's Enterprise Funds Experienced Frequent Deficit Balances From Fiscal Years 2015–16 Through 2019–20 (In Thousands)

Fund	2015–16	2016–17	2017–18	2018–19	2019–20
Water	$1,039	$1,100	$(585)	$(771)	$(966)
Sewer	(1,094)	1,253	(535)	36	341
Wellness Center	(940)	(879)	(283)	(360)	(319)

Source: Lindsay's audited financial statements.

Note: These amounts include the effect of both operating and nonoperating revenues and expenditures, and therefore the operating deficits discussed in the report do not correspond directly to these amounts.

manager indicated that the city's general fund would need to pay for any emergency expenses that arise in the water system. The deficit in the Water Fund also leaves the city ill-prepared to manage crises, including the current drought. Governor Newsom declared a drought emergency in May 2021 in portions of the State, including Tulare County, where Lindsay is located. During a drought, households must conserve water, reducing their water usage; however, this conservation would likely reduce the utility revenues that the city receives through water rates. A reduction in revenue from the drought would drive the Water Fund into a deeper deficit.

> ***"The deficit in the Water Fund also leaves the city ill-prepared to manage crises, including the current drought."***

The city's Sewer Fund is also unable to adequately fund projects. Lindsay's Sewer Fund had a positive balance at the end of fiscal year 2019–20, in contrast to its other enterprise funds; however, that positive balance is a result of the city not investing in its infrastructure. Specifically, the city has not had the resources to update its sewer infrastructure as needed, despite the positive balance. For example, although the city plans to replace its main sewer line, renovate its wastewater treatment plant, and replace equipment, it cannot do so with the limited resources in its Sewer Fund. As a result, the city is reviewing its sewer rates and may need to increase them to fund such infrastructure needs.

Although Lindsay has discussed some methods for addressing such deficits and limited resources, it lacks a formal plan to do so. As we describe previously, the city will receive $3.2 million in federal American Rescue Plan funds that it may use for utility infrastructure. Lindsay's city manager indicated that the city intends to use those funds for some necessary capital projects, including $500,000 in water and sewer projects. However, the city has not determined whether this is the highest and best use of those funds. The city manager indicated that the city will develop a plan for spending those funds once the federal government issues final spending guidelines. The city also plans to contract for a utility rate study in the fall of 2021 that will include the Water Fund, Sewer Fund, and Refuse Fund, and potential adjustments to utility rates. However, until it receives the results of that study, the city does not know to what extent rate increases will address the current fund balances, including the Water Fund deficit. As we discuss above, the city improperly transferred nearly $2 million from the Water Fund to the general fund. The city explained that it intends to repay the Water Fund from the general fund, but it does not have a formal plan to do so and has only informally discussed repayment.

The wellness center manages many of the city's parks and recreation functions, such as rentals at city parks, a recreation center, and a swimming pool. The Wellness Center Fund has had a deficit since at least fiscal year 2015–16, and it ended fiscal year 2019–20 with a $319,000 deficit. The city uses general funds to cover the annual deficit in this fund. In fiscal year 2019–20, the city transferred $200,000 from the general fund to the Wellness Center Fund. Similarly, the city projects that it will need to transfer $500,000 from the general fund in fiscal year 2020–21, in part due to the pandemic. Although the wellness center uses important general fund resources, the center provides health and social benefits to city residents, and the city manager is not concerned with the city's use of general funds for this purpose. The city manager stated that because the fund provides for general parks and recreation expenses, including the swimming pool, the Wellness Center Fund is an extension of the city's general government activities.

In addition, the local hospital district contributes $230,000 annually to the wellness center, which significantly reduces the center's operating loss. In 2021 the local hospital district increased its contribution by a total of $375,000 over three years to pay for capital improvements at the wellness center. State law grants hospital districts in California the power to carry out activities that are necessary for the maintenance of good physical and mental health in the communities they serve. The local hospital district's activities in the area include supporting services at the wellness center. In part, because the city has partnered with the local hospital district to obtain resources to cover the operating loss of the Wellness Center Fund, we agree that the activities of the wellness center provide an important service to the residents of Lindsay and we do not have significant concerns about the deficit in this fund.

Lindsay Has Not Ensured That Its Service Fees and Utility Rates Sufficiently Cover Its Costs

Lindsay has not ensured that it collects sufficient revenue to cover the costs of services it provides because it does not periodically review and update its fees and rates. Further, the city may have foregone revenue that could help relieve some of its financial burdens. Under state law, a city can establish fees and rates at levels that allow it to recoup the full cost of services it provides as long as these do not exceed the reasonable costs of providing those services—a concept referred to as *full cost recovery*. The city's fees cover services such as issuing building permits and business licenses, facilitating background checks, and use of the wellness center. Lindsay's rates help pay for services such as water, sewer, and refuse collection.

We reviewed seven of more than 240 fees and rates in order to identify when the city last updated them, the city's cost of providing the related services, and whether the fees or rates cover the city's costs. Our selection included a residential water rate, two sewer rates, two swimming pool fees, a planning fee, and a public safety fee. Although the city's municipal code requires it to annually evaluate whether the fees and rates it charges recover the full cost to provide the associated services, Lindsay has failed to do so. Specifically, we found that the city last updated four of the seven fees and rates we selected in 2004, more than 15 years ago. Lindsay could not identify when it last updated two of the fees and rates that we reviewed, and it updated one in 2019. As shown in Table 4, Lindsay has not regularly reviewed and updated its fees and rates as required.

> ***"The city last updated four of the seven fees and rates we selected in 2004, more than 15 years ago."***

The city attributes its failure to update its fees regularly to the turnover in its finance department and to limited staffing. As we describe previously, the city reduced its workforce by several dozen positions over the last several years. Further, the finance director position, which is responsible for many of the steps involved in updating fees and rates, has been filled by several directors since January 2017. Although the city reported having adequate staff to provide essential services, it did not consider these administrative activities as essential. We note, however, that since we began our audit, the city has updated its fees for building permits and related activities as well as some of its public safety fees without increasing its related staffing levels. In response to our questions about its lack of updating fees and rates, the city manager stated that he intends for the city to review all of its fees and rates over the next year or two but does not have a schedule for doing so.

Table 4
Lindsay Does Not Follow Its Own Requirements for Regularly Reviewing Fees and Rates

LINDSAY MUNICIPAL CODE REQUIREMENT	LINDSAY'S PROCESS COMPLIES?
Set fees and rates to support the full cost of operations, including indirect costs.	X
City manager must annually:	
Review all fees and rates.	X
Provide city council with the costs of all city services.*	X
Recommend fee and rate adjustments to city council.	X
City council must:	
Annually meet to review proposed changes to fees and rates.	X
Set fees and rates as part of the annual budget process.	X

Source: Lindsay Municipal Code, and analysis of seven of the city's fees and rates.

* Although the city manager does not provide this information for each city service, the annual budget that the city manager creates does include the overall costs for all city services.

The city's municipal code requires Lindsay's city council to set fees and rates at amounts that cover the full cost of operations, including indirect and capital costs whenever possible. For example, its municipal code requires the city to include the overhead costs associated with staff provision of services, such as building and equipment maintenance and operations; communications expenses; and computer, printing, vehicle, and insurance expenses, when it sets fees and rates. However, we found that the city did not always follow this requirement. For example, Lindsay set its newly revised fingerprinting fee at a level that only recovers the salary costs for the public safety officer conducting the fingerprinting and does not include indirect costs, such as office space or supplies. Thus, the city is undercharging for this service and not recovering its full costs, as its municipal code requires.

In total, the city's fees and rates generate almost $5 million annually in revenue, or approximately one-third of Lindsay's overall revenues. As Table 5 shows, the city does not know whether annual revenue from six of the seven fees and rates that we reviewed, including one of its monthly water rates and two of its sewer rates, covers its costs to provide those services. Because Lindsay has not regularly evaluated its service costs, it risks both undercharging and overcharging for those services. For example, we estimate that the city has been losing approximately $5,800 a year in fingerprinting revenue, a potential loss of up to $93,000 since the city last updated the fee in 2004. Lindsay also could be overcharging for a service, for example if it streamlined a process so that it requires less staff time to conduct, but we did not identify any examples of overcharging.

Table 5
Lindsay Has Not Evaluated Whether Its Fees and Rates Cover Related Costs

TYPE OF FEE OR RATE	FEE OR RATE WE REVIEWED	DATE LAST REVISED	COST OF SERVICE KNOWN?
Planning fee*	Home occupation permit	2019	✓
Public safety fee*	Fingerprinting	2004	X
Sewer rate	Hotels, motels, and hospitals	2004	X
Sewer rate	Residential and commercial	2004	X
Water rate	1″ water meter	2004	X
Wellness center fee*	Swimming pool rental for 0–25 guests	Unknown†	X
Wellness center fee*	Spring/summer swimming pool membership	Unknown†	X

Source: Fee and rate documentation, and interviews with city staff.
* The city reviewed these fees in 2021 after we brought the outdated fees to its attention.
† The city was unable to identify when this fee was last revised.

Because of its limited accounting records, Lindsay was also unable to identify the precise amount of revenue it collects from some of its fees and rates. For example, the city could not identify its revenue from individual wellness center fees, such as the swimming pool membership it charges for spring and summer. According to the recreation director, the city records that revenue in a larger category of swimming pool fees that includes public swim fees and lap swim day passes, all of which the city deposits into a single fund. As a result, the city cannot determine whether its swimming pool membership fees appropriately cover the costs to operate its swimming pool during those times when it is open only to members. Because the city has not done so itself, we estimated the cost Lindsay incurred to operate its swimming pool for members during fiscal year 2019–20 and found that it was more than $186,000. However, the city collected only about $8,500 in total swimming pool fees during that time. This difference obviously contributes to the deficit in the Wellness Center Fund that the general fund must cover.

Lindsay is at risk of subsidizing its services because it is undercharging, or it risks a lawsuit from taxpayers if it is overcharging for its services. By not regularly assessing its costs and adjusting the fees and rates to cover them, Lindsay is continuing to miss an opportunity to minimize burdens on its finances. Specifically, if it undercharges for services, the city must subsidize those services with its limited general funds. However, if it overcharges, the city exposes itself to taxpayer lawsuits for imposing a tax in violation of state law. Specifically, state law defines a charge for a service that exceeds the reasonable price of providing the service as a tax, which is then subject to the State's requirements for imposing taxes, including a requirement that the city submit and obtain voter approval in order to implement the tax.

Recommendations to Address This Risk

- *To ensure that it maintains adequate balances in its enterprise funds for significant purchases or capital expenditures, Lindsay should develop and implement a plan by June 2022 to build and maintain these balances.*

- *To ensure that the rates and fees it charges are appropriate to cover the cost of the related services, by August 2022 Lindsay should do the following:*

    » *Determine its cost to provide each of the services for which it charges a fee or rate and, as necessary, improve its accounting records to identify these costs. For any fees or rates that do not cover the costs of their related services, consider increasing those fees or rates, including a phased approach for large increases. For any fees or rates that are above the cost to provide the related service, consider reducing those fees or rates.*

    » *Improve its accounting records so as to identify how much revenue it receives from each fee or rate.*

Lindsay Must Improve Its Management Practices to Effectively Plan for Its Financial and Operational Needs

The City's Lack of a Long-Term Financial Plan Is Hindering Its Efforts to Achieve Financial Sustainability

Although Lindsay has taken some steps to improve its financial position in the short term, it has no clear plan for its long-term financial decision making. The GFOA recommends that all governments regularly engage in long-term financial planning as part of their overall strategic planning efforts. According to the GFOA, a long-term financial plan should include several key elements, such as revenue and expenditure forecasts, strategies for achieving and maintaining financial stability, and a process for periodically reviewing and updating the plan. Figure 5 shows how Lindsay could use the GFOA's best practices to respond to the audit findings in our report. We include a discussion of the city's financial obligations related to retiree costs in the following section of the report.

Figure 5
Implementing GFOA Best Practices for a Successful Financial Plan Would Help Lindsay Address Our Recommendations

GFOA LONG-TERM FINANCIAL PLAN COMPONENTS:

- Revenue and Expenditure Forecast for 5+ Years
- Debt Position and Affordability Analysis
- Analysis of Financial Environment
- Strategies for Achieving and Maintaining Financial Balance
- Plan Monitoring Mechanisms

By setting our recommendations as some of its financial goals, Lindsay could address them through a financial plan.

GOAL 1 STABILIZE GENERAL FUND

ACTION PLAN:

1. Develop a long-term financial plan to align financial resources with strategic goals.
2. Address improper transfers to general fund.

GOAL 2 ADDRESS ENTERPRISE FUND DEFICITS

ACTION PLAN:

1. Identify any fees or rates that do not cover the costs of providing the related services and consider increasing those fees or rates.
2. Determine the appropriate level of funding for the streets program by the utility funds.

GOAL 3 ADDRESS RETIREE COSTS

ACTION PLAN:

1. Identify a goal for prefunding retirement liabilities.
2. Identify the resources necessary to meet that goal and develop a plan for doing so.

Source: GFOA best practices and this report's recommendations.

However, Lindsay does not have a written long-term financial plan, and the long-term planning it has conducted omitted its general fund. When we asked the city manager about Lindsay's current financial plan, he stated that the only financial planning documents the city has created are its annual budgets and the capital improvement plan it presented alongside its fiscal year 2021–22 budget document. However, the city's budget does not include long-term projections for its most important fund, the general fund, which directly affects the city's ability to provide essential services to its residents. Therefore, the budget document does not provide the long-range perspective of a plan that looks five to 10 years into the future, the time horizon that GFOA recommends for such plans. Further, in the capital improvement plan that it presented with its fiscal year 2021–22 budget, Lindsay included five years of anticipated capital improvement projects for its various funds, including the Water Fund, Sewer Fund, and Wellness Center Fund. However, the capital improvement plan includes several projects that cite the city's general fund as a funding source, but without a long-term plan for its general fund, the city cannot ensure that these projects are feasible. Finally, the city's budget does not develop and then use substantive strategies to achieve long-term financial sustainability, such as the goals and actions included in Figure 5. For example, to ensure that it can meet its long-term obligations, Lindsay could develop and implement a detailed plan for prefunding its pension and other post-employment benefit (OPEB) liabilities. Because of its limited long-term financial planning, Lindsay lacks a clear picture of how best to address its financial and operational needs.

The city manager and director of finance stated that developing a long-term financial plan is a goal for the city, but they explained that the city had not done so previously due to financial instability and significant turnover of top finance department staff. However, given that the city has improved its financial position and has hired a permanent director of finance, it is imperative that Lindsay begin to develop a long-term financial plan. Without a strategic framework to guide the city's budgetary decision making, Lindsay will likely continue to struggle to address its long-term needs and to achieve financial stability. For example, if Lindsay were to implement the GFOA best practices that we present in Figure 5 through a full financial plan, the city could prioritize the many financial challenges and risks that we have identified, such as its general fund balance and deficits in its enterprise funds.

Lindsay Needs to Address Its Rising Employee Retirement Costs

Lindsay has not prefunded its OPEB liabilities as best practices recommend, and the city's future pension costs are contributing to its high-risk status. The GFOA recommends that cities fully contribute to their pension plan each year and prefund OPEB liabilities, which are the expected future costs for employees who no longer work for the city, such as health benefits for retired workers, to ensure the sustainability of these benefits. However, at present Lindsay covers only the annual cost of the benefits for its current retirees and does not prefund OPEB costs for health benefits, including for future retirees and for future years for current retirees. This lack of prefunding has caused the city's OPEB liabilities to increase by 36 percent from fiscal years 2017–18 through 2019–20.

Lindsay's OPEB benefits are limited to a health plan that covers future benefits for 33 current city employees and current benefits for five retirees as of fiscal year 2019–20. The city contributes all of the funding to the plan. The retired city employees did not contribute to the plan, nor do current city employees contribute. As Table 6 shows, between fiscal years 2017–18 and 2019–20, Lindsay's required annual contribution—the minimum amount it must pay—grew by more than $10,000 and its liabilities grew by more than $500,000. In fiscal year 2019–20, the city's total OPEB liabilities were nearly $2 million and it paid only about $41,000, just enough to cover the actual health care benefits for the city's retirees. The city did not prefund future benefits at all.

Table 6
Lindsay's OPEB Annual Contributions and Unfunded Liability Have Increased Over the Last Three Fiscal Years

FISCAL YEAR	OPEB CONTRIBUTION	OPEB LIABILITY
2017–18	$31,000	$1,441,000
2018–19	38,000	1,608,000
2019–20	41,000	1,958,000

Source: Lindsay's audited financial statements.

Lindsay has not prefunded its OPEB liabilities because of its poor fiscal condition, and it has no formal plans to do so. Specifically, as we discuss previously, the city had a deficit in its general fund until fiscal year 2019–20. The city manager stated that prefunding OPEB is a secondary priority to addressing other financial issues, such as the deficits in its enterprise funds. However, the manager did state that the city might begin prefunding OPEB liabilities in future fiscal years if it has extra revenue in its general fund. If the city does not begin prefunding its OPEB liabilities or have employees begin to contribute to its funding, it will quite likely have to make higher contributions from its general fund in future years, displacing other spending priorities such as public safety.

Although the city does require its employees to contribute to their pension benefits, Lindsay also has some future pension costs that are high risk. We identify four different indicators of pension risk in our local government high-risk dashboard, as described in the text box. Three of Lindsay's pension risk indicators—pension obligations, pension funding, and pension costs—are at moderate risk, as Table 1 shows, but the city's future pension costs are high risk. We classify cities as having high-risk pension costs when their projected future costs exceed a threshold of 10 percent of their current revenues. We calculated the future pension costs for Lindsay using unaudited information provided by the California Public Employees' Retirement System (CalPERS) and compared those numbers to the city's audited financial statements. By using fiscal year 2026–27 pension contribution estimates from CalPERS to analyze future pension costs, we project that Lindsay's required contributions to its pension plan will reach the 10 percent threshold that year.[4] This means that five years from now, Lindsay's pension costs could begin to place a financial burden on the city if the city does not take substantial action.

State Auditor's Local Government High-Risk Dashboard Pension Indicators

Obligations: The amount a city owes to employees for their retirement benefits. A large unfunded obligation means higher pension contributions over time, straining the ability to provide other services.

Funding: The assets a city has set aside to pay for employee pension benefits. Insufficient pension assets also require higher contributions in the future.

Current Costs: The current financial burden of pension costs. High pension costs can cause cities to curtail critical services.

Future Costs: The future financial burden of pension costs, which pose the same risk of curtailing critical services.

Source: California State Auditor's Local Government High-Risk Dashboard.

4 Our methodology for this calculation is explained in greater detail at the following link: https://www.auditor.ca.gov/local_high_risk/process_methodology

The city must ensure that it is able to pay for its pension plan in future years. CalPERS annually determines Lindsay's required contribution, which covers the cost of pension benefits earned by its current employees that year and an additional amount for beginning to address unfunded liabilities. Lindsay makes the required payment each year, but it had unfunded liabilities of $9.3 million as of June 2020. If the city paid more than the required contribution, it would reduce its unfunded liabilities and therefore its future annual contributions. This action could help the city to avoid the financial stress of reaching the 10 percent threshold in its pension contributions and could reduce the burden on the city to pay for those pension costs instead of other priorities.

Lindsay Has Not Adequately Planned for Its Public Safety Training and Equipment Needs

Lindsay does not appear to be committed to its current integrated public safety approach and must evaluate whether its combined police and fire department is still an appropriate model for providing services to its community. According to a local newspaper, since the late 1970s and in response to its financial difficulties at the time, Lindsay has employed a public safety model that integrates police and firefighting services into a single public safety department. A 2016 report by Michigan State University noted that Lindsay is one of approximately 130 cities nationwide and only a handful in California that have such combined departments. Lindsay's public safety director explained that the city generally hires police officers who have completed training that has been approved by the Commission on Peace Officer Standards and Training and then provides them with training in firefighting.[5] However, Lindsay has not ensured that either of the two public safety officers it hired in the past three years, out of 13 total public safety officers, have received training from a fire academy. As a result, when these officers respond to a fire emergency, a public safety lieutenant explained, the city typically limits their role to support functions rather than firefighting. To the extent that the city needs additional resources to adequately respond to fires or emergencies, such as in case of a structural fire or if an additional paramedic is required, it relies on the county to assist through a mutual aid agreement, one that does not require reimbursement by the city.

> ***"Lindsay has not ensured that two recently hired public safety officers have received training from a fire academy."***

Lindsay's director of public safety has not prioritized training the newly hired police officers in firefighting because that would require them to stop their police work and attend a fire academy. According to the director, he wants to move away from the integrated public safety model toward a separate police department and a semi-volunteer fire department. He believes the current integrated model is not sustainable because the two disciplines of police and fire have different mindsets and it is difficult for public safety officers to maintain their continuing training in both professions. According to the director, the current city council is in favor of this change. However, the city manager has yet to formally propose to the city council that it separate the police and fire services into two departments. Until the city council approves such an

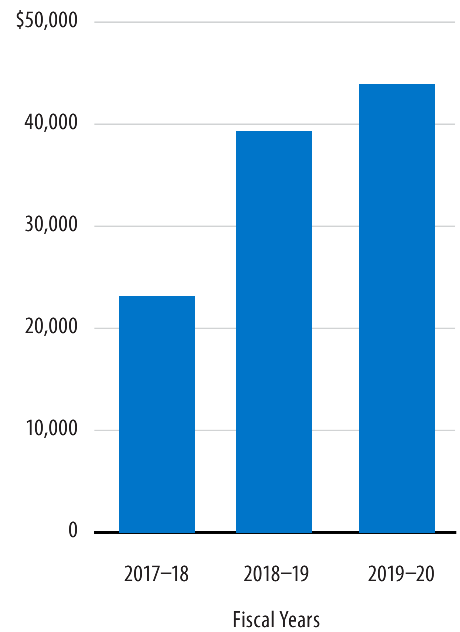
5 State law established the Commission on Peace Officer Standards and Training to set minimum selection and training standards for California law enforcement officers.

organizational change, the Public Safety Department must continue to ensure that all of its public safety officers are duly trained to respond to both police and fire emergencies. By not ensuring such training, Lindsay risks the safety of its residents and must rely more heavily on its mutual aid agreement with the county for fire response services.

Although we did not identify any problems with the Public Safety Department's response times, the age of both its police and fire vehicles could affect the safety of Lindsay's residents should those vehicles break down while responding to an emergency. The National Fire Protection Association recommends that fire departments only use properly maintained fire trucks older than 15 years as backup equipment for newer fire trucks and retire fire trucks that are older than 25 years. However, Lindsay uses a 21-year-old fire truck as a primary fire response vehicle. Lindsay's police vehicles are also old, averaging 13 years—significantly older than those of other cities that we reviewed, whose average vehicle ages ranged from 4.5 to 8 years old.[6] We found that the city has recently taken steps to address the age of its public safety vehicles. In 2021 the city published a capital improvement plan that included replacement of five of its 16 police vehicles over the next three fiscal years at a cost of about $1 million. However, we expected Lindsay to identify a schedule that details when it must retire or replace all of its public safety vehicles as well as the expected costs to replace those vehicles.

Lindsay also faces increasing maintenance costs for its public safety vehicles. As Figure 6 shows, the city's cost to maintain its public safety vehicles nearly doubled in two years, from $23,000 in fiscal year 2017–18 to $44,000 in fiscal year 2019–20. According to a public safety lieutenant, it intends to absorb these maintenance costs in its existing budget. As a result, the department will continue to face escalating maintenance costs, which will hinder the city's overall efforts to improve its financial position.

Figure 6
Lindsay's Police Vehicle Maintenance Costs Are Rising



Source: Lindsay Public Safety Department police vehicle maintenance records.

Recommendations to Address This Risk

- *Lindsay should adopt a policy for long-range financial planning by February 2022 that, at a minimum, identifies the forecast period for the plan, the funds it will include, efforts the city will make to increase revenues and decrease expenditures, and the frequency with which the finance director and the city manager will review the plan and propose any updates to the city council.*

6 We compared Lindsay with two of its geographic and economically similar neighboring cities, Exeter and Farmersville, and one city with a combined public safety department, Sunnyvale.

- *City management should develop, and the city council should formally adopt, a long-term financial plan by August 2022 that aligns with best practices published by the GFOA.*

- *Lindsay should include in that financial plan a discussion of how it will reduce its pension and OPEB liabilities. As part of that plan, the city should consider requiring current employees to begin contributing to the future cost of their retirement health care benefits.*

- *To ensure that Lindsay's public safety model still meets the city's needs, Lindsay should do the following:*

  » *Evaluate the effectiveness of using a combined police and fire department by August 2022 and make any necessary changes.*

  » *Ensure that all public safety officers receive any necessary training within six months of employment beginning August 2022, including any public safety officers who are expected to respond to fires or emergencies.*

- *To ensure that its fire vehicles meet industry standards and its police vehicles are replaced in a timely manner, by November 2021 Lindsay should develop a sufficiently detailed public safety capital improvement plan that provides for the replacement of those vehicles.*

We conducted this audit under the authority vested in the California State Auditor by Government Code section 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

August 26, 2021

Appendix A

Scope and Methodology

In February 2020, the Joint Legislative Audit Committee (Audit Committee) approved a proposal by the State Auditor to perform an audit of Lindsay under the local high-risk program. We conducted an initial assessment of Lindsay in December 2019 in which we reviewed the city's financial and operating conditions to determine whether it demonstrated characteristics of high risk pertaining to the following six risk factors specified in state regulations:

- The local government agency's financial condition has the potential to impair its ability to efficiently deliver services or to meet its financial or legal obligations.
- The local government agency's ability to maintain or restore its financial stability is impaired.
- The local government agency's financial reporting does not follow generally accepted government accounting principles.
- Prior audits reported findings related to financial or performance issues, and the local government agency has not taken adequate corrective action.
- The local government agency uses an ineffective system to monitor and track state and local funds it receives and spends.
- An aspect of the local government agency's operation or management is ineffective or inefficient; presents the risk for waste, fraud, or abuse; or does not provide the intended level of public service.

Based on our initial assessment, we identified concerns about Lindsay's financial condition and financial stability as well as aspects of its operations that were potentially ineffective or inefficient. The following table lists the objectives that the Audit Committee approved and the methods we used to address them.

Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, ordinances, rules, and regulations significant to the audit objectives.	Reviewed relevant state laws and regulations, municipal codes, and other background materials applicable to the city.
2	Evaluate Lindsay's current financial condition and ability to meet its short-term and long-term financial obligations while continuing to provide services to its residents.	• Evaluated the city's financial statements to determine its financial condition, including its general fund balances, revenues and expenditures, and other major fund balances. • Assessed the city's financial condition and its ability to meet its obligations by reviewing audited financial statements. • Reviewed outstanding pension and OPEB liabilities and annual contributions.
3	Identify the causes of Lindsay's financial challenges, and determine whether the city has developed an adequate plan for addressing those challenges, including the following: a. Assess the appropriateness of any interfund loans, transfers, and advances over the last three fiscal years; determine whether Lindsay complied with applicable laws and followed best practices in making such transactions; and evaluate the city's ability to repay its interfund loans, transfers, and advances in a timely manner. b. Assess the city's efforts to improve its financial condition by increasing revenues and reducing expenses.	• Identified and documented the major events and actions that caused Lindsay's financial challenges, including loans, transfers, and advances over the last three fiscal years, and the city's efforts to address those challenges. • Reviewed the city's forgiveness of loans from its utility funds to its general fund to assess whether it violated Proposition 218 and the city's response to address the violation. • Interviewed city council members and the former finance director to assess the city's forgiveness of loans from its utility funds to its general fund. • Reviewed the city's streets program to determine whether the city's approach to funding the program violated Proposition 218. • Evaluated the sales tax proposal approved by city voters and compared the city's revenue projections to actual amounts collected. • Consulted with the city manager to identify the city's attempts to pursue and promote economic development opportunities. In particular, we evaluated the city's efforts to increase revenue by allowing and licensing cannabis businesses, to resolve outstanding financial liabilities to state agencies, and to reduce expenditures.
4	Determine whether Lindsay's budgeting processes comply with best practices. In addition, evaluate the city's procedures and underlying assumptions for projecting future revenues and expenditures, and determine whether they result in balanced budgets and accurate financial forecasts.	• Reviewed GFOA budgeting best practices and identified key practices that the city should follow. • Reviewed whether the city's budget practices are timely and in line with the key GFOA budgeting best practices we identified. • Examined Lindsay's budgets for the past three fiscal years and assessed the reasonableness and accuracy of the projections it used by comparing budgeted and actual revenues and expenditures.
5	Assess Lindsay's process for setting, increasing, or decreasing fees or rates to ensure that it complies with applicable laws, rules, ordinances, regulations, and best practices. For a selection of these fees and rates, determine if they cover the city's costs of providing services.	• Interviewed staff to obtain an understanding of the city's policies, processes, and practices for setting fees and rates. • Identified all the fees and rates Lindsay charges. Selected seven fees and rates and reviewed the city's cost of providing each service. Determined when the city last updated each fee or rate and assessed whether the fee or rate covers the city's costs of providing the relevant services. • For three of the fees and rates, we tested whether their last increases complied with applicable city laws and policies.
6	Determine whether the city council provides adequate oversight of city operations and the governance necessary to ensure that Lindsay meets its fiduciary duties to its residents.	• Identified and documented best practices related to training new city council members. • Interviewed staff and reviewed documentation related to training that the city has provided to council members since 2018 and compared this training to the best practices we identified. We did not identify any problems with the city's process for training council members. • Documented city council oversight and decision making related to the city's financial affairs from 2018 through 2020 and determined that it has increased that oversight.

AUDIT OBJECTIVE	METHOD
7 Evaluate Lindsay's efforts to address the deficiencies noted by its external auditor during the most recent audit of the city's financial statements.	• Identified major findings from the external auditor's last four annual audit reports. • Assessed whether Lindsay's efforts for tracking and responding to the findings have been sufficient. We found that Lindsay has sufficiently tracked and responded to audit findings, other than those related to its violation of Proposition 218.
8 To the extent possible, determine the impact of Lindsay's integrated public safety model and resources on its ability to protect its citizens.	• Reviewed information about integrated public safety models and their use in California. • Identified recruitment and training standards and best practices for police officers and firefighters. • Identified how Lindsay recruits and trains its public safety officers and assessed the adequacy of these efforts. We found that its recruitment process was adequate. • Compared Lindsay's public safety response times, staffing levels, and capital assets to those of three comparable cities and industry averages to determine whether they are sufficient to protect the public's safety. Lindsay has slightly more firefighters and slightly fewer police personnel than the average for other small California cities. • We attempted to compare Lindsay's combined public safety model with those of other cities in California; however, their models or demographics were not similar enough to Lindsay's to make a valid comparison.
9 Review and assess any other issues that are significant to the audit.	• Reviewed best practices for recruitment of key city leaders and compared them to Lindsay's practices and, in general, found that Lindsay employed those best practices. • Assessed strategic and succession planning efforts. Although the city does not have a formalized strategic plan, we found that the city does undertake some strategic planning as part of its budget development process. However, we identified concerns with the city's financial planning efforts, which we discuss in the report. We found that although the city lacks a succession plan, it has adequately filled its key leadership positions, including its city manager and finance director positions.

Source: Audit workpapers.

Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer‑processed information that we use to materially support our findings, conclusions, or recommendations. In performing this audit, we relied on electronic data obtained from the Tulare County ADSi CADForce database (9‑1‑1 database). We performed dataset verification procedures and testing of key data elements and found that about 15 percent of the data were not logical, indicating data entry errors and calls in which dispatchers canceled officers' responses. We otherwise did not identify any issues with the data. We did not perform accuracy and completeness testing of these data because the system is entirely electronic and there are no paper source documents against which to check the data. Consequently, we found the 9‑1‑1 database data to be of undetermined reliability for the purposes of calculating the exact response times for Lindsay's Public Safety Department. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

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Appendix B

The State Auditor's Local High-Risk Program

Government Code section 8546.10 authorizes the State Auditor to establish a local high-risk program to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement or that have major challenges associated with their economy, efficiency, or effectiveness. Regulations that define high risk and describe the workings of the local high-risk program became effective on July 1, 2015. Both the statute and regulations require that the State Auditor seek approval from the Audit Committee to conduct audits of high-risk local entities.

To identify cities that may be at high risk for fiscal distress, we analyzed audited financial statements and unaudited pension-related information for more than 470 California cities. This review included using various financial indicators to assess the fiscal health of cities and rate them based on their risk of experiencing fiscal distress. These indicators enabled us to assess each city's ability to pay its bills in both the short and long term. Specifically, the indicators measure each city's financial reserves, debt burden, cash position or liquidity, revenue trends, and ability to pay for employee retirement benefits. In most instances, the financial indicators rely on information for fiscal years 2016–17 through 2018–19.[7]

Based on our analysis from 2019, we identified several cities, including Lindsay, that met the criteria for being at high risk. After establishing our list of cities facing fiscal challenges, we conducted initial assessments to further evaluate the risks those cities faced. We performed independent, data-driven analyses to determine which cities to send audit teams into to get local officials' perspective regarding our areas of concern. Our initial assessment concluded that Lindsay's circumstances warranted an audit. In February 2020, we sought and obtained approval from the Audit Committee to conduct an audit of Lindsay.

If a local agency is designated as high risk as a result of an audit, it must submit a corrective action plan. If it is unable to provide its corrective action plan in time for inclusion in the audit report, it must provide the plan no later than 60 days after the report's publication. It must then provide written updates every six months after the audit report is issued regarding its progress in implementing the corrective action plan. This corrective action plan must outline the specific actions the local agency will perform to address the conditions causing us to designate it as high risk and the proposed timing for undertaking those actions. We will remove the high-risk designation when we conclude that the agency has taken satisfactory corrective action.

7 As we describe in Appendix A, we conducted our initial assessment of Lindsay in December 2019. In November 2020, we updated our financial indicators to include information through fiscal year 2018–19.

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Lindsay
All-America City

City of Lindsay

P.O. Box 369 — Lindsay, California 93247 — 251 Honolulu Street

August 10, 2021

Elaine M. Howle, CPA*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Auditor Howle:

The City of Lindsay believes the facts contained in State Auditor's Report 2020-804 demonstrate the City's positive steps in recent years toward reaching financial stability, as evidenced by several instances where the areas of improvement recommended by the State Auditor are in line with the ongoing efforts of City staff. However, there remain competing pressures between short and long-term fiscal strategies for the future. Lindsay faces major challenges associated with our economy. Agriculture is still the primary industry of our region and the Lindsay community is largely one of farm laborers. The median annual household income is well below the State average at $31,000 and 36% of our residents live in poverty. In June 2021, the unemployment rate was 18.2%. Naturally, the steps the City takes to rebuild its financial health will have to take this context into consideration. And while the City intends to commit itself in good faith to fulfilling the State Auditor's recommendations, it does foresee a potential for delays due to a lack of resources, lack of revenues, limited staff, and the unpredictability of COVID-19 impacts.

I. Loan Forgiveness

In 2017, the City was operating in a state of insolvency. Consequently, there were a number of short-term solutions taken to stop the bleeding; chief among these decisions was the City's forgiveness of major loans from its utility funds to its general fund. It bears mentioning that key City staff related to the improper forgiveness of these loans, such as the City Manager and Finance Director, are no longer employed by the City of Lindsay.

LINDSAY...
THE FRIENDLY CITY

HEART OF CENTRAL
CALIFORNIA ORANGE AREA

* California State Auditor's comments begin on page 43.

In managing the fall-out, current staff has prioritized the strengthening of policies and procedures to ensure proper safekeeping measures are in place for all sources of funding. For example, in November 2020, staff recommended updates to the City's Procurement Policy which City Council reviewed and adopted. As of the date of this report, staff is working on updating two more policies, for grant management and financial reserves, respectively, to strengthen safekeeping procedures.

The City intends to review and analyze conditions and mechanisms that affect the current and future financial performance of the City. This study will be a direct follow-up to the State Auditor's report and will review financial strengths, weaknesses, opportunities, and threats analysis (SWOT), as well as a repayment plan. Any reasonable repayment plan would need to delicately balance the obligations of the schedule and general fund solvency. Another important consideration is the concern that a repayment schedule would push the City into a structural operating deficit that continues long enough to burn through reserves and is not resolved by revenue increases or spending cuts quickly enough for the City to avoid running out of cash as it attempts to meet necessary and fixed expenses such as debt service and payroll. Such was the case with Vallejo, Stockton, Detroit, and San Bernardino. The City could be pushed over the edge by a relatively small one-time expense or drop in revenues, as it may have little or no cushion available to absorb even a modest setback.

Thus, the City finds itself essentially stuck between a rock and a hard place. On the one hand, the City can leave the obligation on the books, resulting in a long-term debt and the prospect of the City finding itself in a position of insolvency. As the state acknowledges, there is no legal issue with interfund loans if the loans are structured as long-term loans. Therefore, the City may re-establish its long-term payment plan of the loans back to the appropriate enterprise fund. Doing so would essentially eliminate any legal liability. On the other hand, given the decades long repayment schedule, it remains unlikely the funds would actually be repaid without additional cuts in service or personnel.

Finally, despite the legal conclusions stated in the audit, in order to have liability, a legal challenge must be successful. Even if a Proposition 218 challenge is initiated, the statute of limitations for such a challenge to assessments covered by Proposition 218 has been reached. The State's position is that the transfers indicate that funds were converted from ① enterprise assessments to general fund expenditures. Such a transfer therefore allegedly indicates that residents were overcharged for services. Code of Civil Procedure § 860 is regarded as the exclusive procedure for challenging the validity of an assessment. [1] A 60-day statute of limitations would apply per Code Civ. Proc. § 863 unless the assessment statute being utilized specifies another time period. Therefore, the time for any legal exposure is long past.

II. Streets Improvement Program (SIP)

The City Engineer selected to prepare the 2004 utility service impact study on City streets, James Winton, was a reputable Registered Civil Engineer with more than 40 years of experience in local government. The final 2004 Engineer's Report was based on a 10-year ② comprehensive plan to maintain all City Streets and outlined proposed increases of 5.9% per year per utility fund for four years, for a total necessary increase of 23.6% street improvement contribution per fund at the end of 2009 and carried until 2019. The legal standard for transfers such as the SIP gives the City the benefit of the doubt based on the engineer's report. The State's conclusion as to whether the SIP is legal cannot be based solely on whether the Finance Director today, can articulate whether the program is appropriate. Apportioning a special benefit has never required mathematical precision; so long as the apportionment is reasonable and is justified by the engineer's report, it should be upheld. If the assessment is no longer valid, it will be up to the current staff to provide an additional engineer's report and make any adjustments. Re-examining fees does not result in the State's conclusion that the SIP transfers were unlawful from the beginning, or at any time since. To this point, the City acknowledges that a new study should be

[1] See *Not About Water Com. v. Board of Supervisors* (2002) 95 Cal.App.4th 982, 986 and 992-93.

performed to evaluate the impact of utilities on City streets to ensure the accuracy of this rate from 2019 through to the current date.

3 The current state of the law is that under article XIIID of the California Constitution, the City is entitled to rely upon the record created during the required hearing process. Challengers are required to present evidence contrary to the engineer's report during the hearing in order to permit the agency to make proper decisions based upon all of the evidence. The City can meet its burden under article XIIID, section 4(f) by introducing a properly prepared engineer's report and the record of the assessment proceedings. It is precisely for reasons such as the current situation that the law is created in this fashion; neither the state auditors, nor the current staff can provide the history, conversations, or rationale to know whether the SIP, as of today, continues to be valid. But the law recognizes this as it would be nearly impossible to make such a determination for a decision that was made over a decade ago. The law only requires the City meet its burden under article XIIID, section 4(f) by introducing a properly prepared engineer's report and the record of the assessment proceedings, which it did at the time. Therefore, the City met its obligations under the law.

III. Inappropriate Legal Conclusions

4 The Audit Report makes several legal conclusions that the forgiveness of transfers was illegal. The Audit Report is not a court of law and does not have authority to determine whether an action by the City was illegal. In fact, the forgiveness of a loan from an enterprise fund is not on its face illegal. The City of Riverside is an example, and in *Webb v. City of Riverside*[2] the Court held that a Proposition 218 violation does not occur if the transfers do not result in the taxpayers paying more than the reasonable cost of service, or if the transfers come from non-rate revenue. A court of law has not determined that the applicable transfers resulted in taxpayers being charged more than the reasonable cost of

[2] Webb v. City of Riverside (2018) 23 Cal.App.5th 244

service, or that the transfers came from rate revenue, therefore, the Audit Report, cannot, and should not, come to the legal conclusion that the transfers were illegal.

The Audit Report has the same problem in regard to its legal conclusions about the City's 4
Street Improvement Program (SIP). A court of law has not determined that the City's charge for the SIP exceeds the reasonable cost of service, resulting in a Proposition 218 violation. Therefore, the Audit Report should not state as an unqualified fact that the SIP is illegal.

IV. Service Fees and Utility Rates

For the past decade, there has been a significant hesitancy to enact changes to the City's service charges despite staff recommendations and internal work product. For example, in 2015, a water rate and feasibility study was completed but the final item was not presented to City Council. Only in very recent years has the public and City Council been assured that the charges for services are fair and accurate and that there are proper safekeeping measures in place for funds received. From 2019-2021, staff has reviewed refuse rates, public safety fees, planning, building and development fees, and wellness center fees and City Council has approved recommended changes. Staff is actively engaged in fulfilling the State Auditor's recommendation to adhere to the Lindsay Municipal Code and include overhead costs in future cost analyses.

V. Enterprise Funds

The State Auditor is correct in its assertion that the City's water enterprise fund has operated at a growing loss in recent years and that current water rates are limiting the City's
ability to effectively operate Lindsay's water system. It is with these facts in mind that staff 5
recommended changes to the City's existing billing and collection procedures for sewer, refuse, and utility delinquencies. In July 2021, the Lindsay City Council approved the levy and collection of charges related to these services on the Tulare County property tax rolls for the fiscal year 2021-2022. This action directly addresses the financial instability of

our utility enterprise funds and demonstrates the City's intention to bolster its utility enterprise funds, notwithstanding the final recommendations of the State Auditor. Similarly, the potential for an increase in fees for recreation activities hosted at the Wellness Center has been discussed and up until now deferred by the City until this option can be thoroughly analyzed to avoid pricing out the majority of Lindsay residents. The Wellness Center was built specifically with the wellness of our community in mind. Maintaining our Wellness Center accessible has likely led to many long-term benefits for Lindsay, including building social cohesion and deterring harmful or unlawful behavior. Such benefits are much more difficult to quantify but are not considered to be any less important than the bottom line.

VI. Long-Term Financial Planning

The City has taken a number of positives steps towards more robust long-term financial
6 planning. In November 2020, the City reviewed and updated its Investment Policy, and in July 2021 the City procured memberships in the Government Finance Officers Association (GFOA) to aid in the creation of a long-term financial plan. Also in July 2021, the Finance Director presented the City Manager with the first draft of the City of Lindsay's Reserve Policy. The proposed policy is a significant improvement from the current policy as it provides exact details for allocating annual surpluses and makes plans for fund deficits. Elements of the draft policy include provisions for general fund operating reserves, local emergency reserves, unfunded liability reserves, and capital reserves. A final copy as recommended by staff will be presented to City Council in the coming months for review and adoption.

VII. Employee Retirement Costs

Employees of the City of Lindsay are the lowest paid municipal employees in Tulare County, which contributes to keeping the City's retirement costs down. In 2020, the City examined various CalPERS options for pension obligation planning but ultimately determined the program offerings to be out of line with the City's structural financial improvement. Staff continues to actively explore other programs and services to address the growing unfunded liability of retirement benefits. In 2014, the City of Lindsay increased the minimum performance period for eligibility of other post-retirement benefits from 15 years of continuous service to 20 years to continue medical health benefits until retired employees reach eligibility for Medicare. This means that the City contributes a maximum of 75% of a retired employees health retirement plan and the retiree is responsible for the remaining 25% of costs until that retiree is eligible for Medicare. The City plans to review and execute new memorandums of understanding with employees in the 2022 calendar year.

VIII. Public Safety Department

The City is appreciative of the critical fire needs currently faced by the Public Safety 7
Department but finds its options limited by insufficient staffing and capital resources. Lindsay is not the first or only rural community to face such a dilemma. The start-up costs for a separate, stand-alone Fire Department to cover hiring, equipment, housing, and amenities are estimated to cost upwards of $1 million, with an annual operating budget of $3-4 million thereafter, making this approach frankly untenable for the City of Lindsay. The City is actively hiring for a Fire Lieutenant position with the goal of providing in-house training to Public Safety personnel and to better meet the fire training needs for officers involved in fire and emergency response.

The State Auditor's report provides a useful calibration point as the City looks to the future. The City intends to further address the concerns of the State Auditor's Office in its forthcoming corrective action plan.

Sincerely,

Joseph M. Tanner
City Manager

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CITY OF LINDSAY

To provide clarity and perspective, we are commenting on Lindsay's response to our audit. The numbers below correspond to the numbers we have placed in the margin of Lindsay's response.

1 The city mischaracterizes our finding. As we explain on page 9, Proposition 218 prohibits a city from using revenues derived from property-related fees, such as fees for water service, for general government operations. We did not consider, as the city's response suggests, whether the city's residents were overcharged for services. Therefore, we stand by our finding that Lindsay's transfers and subsequent loan forgiveness violated this provision of Proposition 218. Further, Lindsay's response incorrectly cites state law relating to the statute of limitations that governs legal actions regarding the validity of property assessments when, in fact, the city derived these revenues from fees—paid by ratepayers such as for water and sewer utility services. We found no specific statute of limitations; therefore, the default three-year statute of limitations would apply to an action seeking judgment on the improper use of revenue derived from property-related fees.

2 Lindsay misrepresents the city's obligations and the reasonableness of its engineer's report related to the streets program. As we explain on pages 11 and 12, although Proposition 218 prohibits a city from using property-related services for general government services, a city may charge its utility funds for the costs it incurs against the general fund, such as for the costs of street repair and maintenance. However, a city must be able to demonstrate that those transfers reasonably represented those costs. As we describe on page 12, the 2004 engineer's report that supports those transfers—which averaged nearly $900,000 annually—did not demonstrate that the amount generated by the rate increases represented the actual costs of the damage the city's utilities caused. Instead, we noted on the same page, that the city should analyze and report the damage that each type of utility has caused to its streets to identify what the appropriate amount would be to charge each fund going forward. Finally, Proposition 218 provides that in any challenge to the validity of a property-related fee or charge, the burden is on the local agency—in this case, the city of Lindsay—to demonstrate compliance. Thus, we stand by our finding.

③ Again, Lindsay mischaracterizes our finding and refers to provisions of Proposition 218 relating to property assessments, which do not apply here. Our report focused on property-related fees, not assessments, which are distinct and governed by different provisions of Proposition 218. As we state on pages 11 and 12, those provisions of Proposition 218 allow the city to charge its utilities for the cost of street repairs and maintenance that result from damage by those utilities so long as the city demonstrates that a charge for repairs or replacement reasonably represents those costs. Thus, we stand by our recommendation on page 15 that Lindsay should perform a study to determine the appropriate level of funding from its utility funds for the streets program and update that study every three to five years.

④ We agree with Lindsay that this report "is not a court of law" and that, as of yet, a court of law has not imposed legal liability on the city for violating state law. However, audit standards require us to review the legal criteria governing the city's actions, to gather and consider sufficient and appropriate evidence, to identify any bad effects, and to report our findings with recommendations where appropriate. Here we have done so, including reporting on the risk that its noncompliance poses to the city if challenged in court. We offer our conclusions solely for helping the city avoid an adverse judicial ruling and related financial award. Similarly, we note on page 11 that the city's external auditor also reached the conclusion that the city's actions violated Proposition 218. Thus, we stand by our findings and recommendations.

⑤ During the course of our audit, the city did not share with us information regarding its approval of the levy and collection of charges related to its utilities. We look forward to reviewing this information when it provides an update on its progress toward implementing our recommendation on page 22 that it develop and implement a plan to build and maintain adequate balances in its enterprise funds.

⑥ The city misrepresents its efforts to improve its financial policies as steps towards long-term financial planning. Although a long-term financial plan could include a component for updating financial policies, the city's efforts to update its financial policies are not part of a larger, long-term financial plan. Instead, the city has proceeded through its financial challenges in a piecemeal approach, such as by updating these policies, without having a larger framework in place to comprehensively address these challenges. Thus, we stand by our recommendation.

The city's response incorrectly implies that we recommended it create a separate, stand-alone fire department. We explain on page 26 the director of public safety's perspective that the current integrated model is not sustainable, and that the city manager has yet to formally propose to the city council that it separate the police and fire services into two departments. On the same page, we note that until the city council approves such an organizational change, the Public Safety Department must continue to ensure that all of its public safety officers are duly trained to respond to both police and fire emergencies. Thus, we stand by our recommendation on page 28 that the city evaluate the effectiveness of using a combined police and fire department and ensure all of its public safety officers have training to respond to fires or emergencies. 7

Grant Parks *California State Auditor*

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Local High Risk Program

The State Auditor Is Removing Its High-Risk Designation From Four Cities and Retaining the Designation for Three Others

Background

Government Code section 8546.10(e) requires that the California State Auditor issue a report on high-risk local government entities every three years, unless we have removed them from the high-risk program. Our prior audits of the cities of Blythe, El Cerrito, Lindsay, Lynwood, Montebello, San Gabriel, and West Covina identified areas of high risk related to the cities' financial conditions, financial stability, and oversight of city contracts, among other issues.

For this audit, we evaluated these seven cities to determine the extent to which each city has addressed prior audit recommendations. We also assessed trends in the city's financial condition and determined whether we should continue to designate any of these cities as high-risk local government agencies.

Key Findings

- The cities of Blythe, El Cerrito, Lynwood, and San Gabriel have taken satisfactory corrective action and addressed key deficiencies we identified in our prior reports. Therefore, we are removing their high-risk designations.
- Although the cities of Lindsay, Montebello, and West Covina have taken steps to improve their overall financial health, we are not removing the high-risk designation from those cities at this time.
  - The city of Lindsay has a negative general fund reserve level and deficits in key enterprise funds.
  - The city of Montebello has continued deficit spending in its general fund.
  - The city of West Covina's approach to addressing its general fund reserve level increases its risk for future financial instability.

Key Recommendations

- The city of Lindsay should continue to implement our prior audit recommendations: It should adopt a policy for long-range financial planning that identifies efforts the city will make to increase revenues and decrease expenditures, and it should develop a plan to build and maintain its enterprise fund balances.
- The city of Montebello should adopt a financial plan with specific strategies to reduce its expenditures and to build and maintain its revenue.
- The city of West Covina should establish a general fund reserve level that is sufficient to mitigate current and future risks.

Local High Risk Program

The State Auditor Is Removing Its High-Risk Designation From Four Cities and Retaining the Designation for Three Others

December 2024

REPORT 2024-801

CALIFORNIA STATE AUDITOR
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Grant Parks *State Auditor*

Mike Tilden *Chief Deputy*

December 19, 2024
Audit 2024-801

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This audit report updates the status of the cities of Blythe, El Cerrito, Lindsay, Lynwood, Montebello, San Gabriel, and West Covina as high-risk entities as part of our office's high-risk local government agency audit program. Our prior audits of these cities identified areas of high-risk related to the cities' financial conditions, financial stability, and oversight of city contracts, among other issues. For this statutory audit, we reviewed the extent to which each city has addressed recommendations from prior audits, assessed trends in the cities' financial conditions, and determined whether we should continue to designate any of these cities as high-risk local government agencies.

This report concludes that the cities of Blythe, El Cerrito, Lynwood, and San Gabriel have taken satisfactory corrective action and addressed key deficiencies identified in our prior reports. Therefore, we are removing their high-risk designation. In accordance with the laws relating to the local high-risk program, we may subsequently reevaluate the high-risk designations of the cities of Blythe, El Cerrito, Lynwood, and San Gabriel if situations change and these cities appear to be at risk of not being able to meet their financial obligations or provide efficient and effective services to the public, among other concerns.

Although the cities of Lindsay, Montebello, and West Covina have taken steps to improve their overall financial health, we are not removing the high-risk designation from those cities at this time. We will continue to monitor the cities and the actions they take to address the areas of high risk we have identified. When the cities' actions result in sufficient progress toward resolving or mitigating such risks, we will remove their high-risk designation.

Respectfully submitted,

GRANT PARKS
California State Auditor

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Prior Relevant Reports Issued by the California State Auditor

Blythe

March 2021, *City of Blythe: Inadequate Planning and Other Ineffective Management Practices Hinder Its Ability to Provide Needed Services to Its Residents*, Report 2020-802

El Cerrito

March 2021, *City of El Cerrito: Excessive Spending and Insufficient Efforts to Address Its Perilous Financial Condition Jeopardize the City's Ongoing Fiscal Viability*, Report 2020-803

Lindsay

August 2021, *City of Lindsay: It Must Take Substantial Action to Address Its Financial Problems and Its Inadequate Management Practices*, Report 2020-804

Lynwood

December 2018, *City of Lynwood: Poor Management Has Contributed to Its Financial Instability and Led to Its Failure to Comply With State Law*, Report 2018-803

September 2021, *City of Lynwood: Despite Taking Some Action to Improve Its Management Practices, the City Continues to Risk Financial Instability and Violations of State Law*, Report 2021-808

Montebello

December 2018, *City of Montebello: Its Structural Deficit and Poor Operational Processes Threaten the City's Financial Stability and Delivery of Public Services*, Report 2018-802

October 2021, *City of Montebello: Although It Is Making Positive Changes, It Remains at High Risk Because of Recent Declines in Its Financial Condition*, Report 2021-807

San Gabriel

April 2021, *City of San Gabriel: Its Ongoing Deficit Is Inhibiting Its Financial Recovery*, Report 2020-805

West Covina

December 2020, *City of West Covina: Its Deteriorating Financial Situation Threatens Its Fiscal Stability and Its Ability to Provide City Services*, Report 2020-806

Contents

Selected Abbreviations Used in This Report

ACFR	Annual Comprehensive Financial Report
ARPA	American Rescue Plan Act of 2021
GFOA	Government Finance Officers Association
OPEB	Other Post-Employment Benefits

Introduction

The California State Auditor's High-Risk Local Government Agency Audit Program

State law authorizes the California State Auditor (State Auditor) to establish a local high-risk program to assess, audit, and ultimately issue reports about local government agencies that we designate as high risk for potential waste, fraud, abuse, or mismanagement, or that we identify have major challenges associated with their economy, efficiency, or effectiveness. State law requires that all audits we conduct as part of this program initially be approved by the Joint Legislative Audit Committee. If we designate an agency as high risk, that agency must submit to us a corrective action plan that addresses the conditions that caused us to make the designation. In this report, we refer to those conditions as *high-risk areas*. An agency's corrective action plan is due no later than 60 days after the publication of an audit that concluded the agency was high risk, and agencies must then submit periodic updates on the status of that plan every six months thereafter.

We remove the high risk designation when an agency has taken satisfactory corrective action. To assess local agencies' progress in addressing their high-risk areas, we may conduct *assessments* of the agency's progress at six-month intervals that correspond with the corrective action plan updates that the local agencies provide. Also, state law requires that we issue an audit report on high-risk local government entities every three years, unless we have removed them from the high-risk program. For this audit, we reviewed the seven cities listed in the text box to determine the extent to which each city has addressed prior audit recommendations, assess trends in the city's financial condition, and determine whether we should continue to identify any of these cities as high-risk local government agencies.

Cities Included in This 2024 Local High-Risk Follow-Up

- Blythe (Riverside County)
- El Cerrito (Contra Costa County)
- Lindsay (Tulare County)
- Lynwood (Los Angeles County)
- Montebello (Los Angeles County)
- San Gabriel (Los Angeles County)
- West Covina (Los Angeles County)

Overall this audit concludes that the cities of Blythe, El Cerrito, Lynwood, and San Gabriel have taken satisfactory corrective action and addressed key deficiencies we identified in our prior reports. Therefore, we are removing their high-risk designation. In accordance with the laws relating to the local high-risk program, we may subsequently reevaluate whether Blythe, El Cerrito, Lynwood, or San Gabriel should be identified as high risk if situations change and these cities appear to be at risk of not being able to meet their financial obligations or provide efficient and effective services to the public, among other concerns. Although Lindsay, Montebello, and West Covina have taken steps to improve their overall financial health, we are not removing the high-risk designation from those cities at this time. Throughout this report, we have made additional recommendations to those cities whenever the circumstances of their risk areas meant that our previous recommended corrective actions were no longer relevant or sufficient. In cases when our existing recommendations from previous audits continue to be applicable to these cities' circumstances, we do not make any new recommendations.

General Areas of Importance to This Local High-Risk Audit

Although this audit addresses the specific risks pertaining to seven cities, several topic areas are applicable to more than one city. We present background information about each of these areas below.

American Rescue Plan Act of 2021

In response to the COVID-19 pandemic, the American Rescue Plan Act of 2021 (ARPA) appropriated federal funds to help provide state, local, and tribal governments with the resources needed to mitigate the fiscal effects. As Table 1 shows, each of the seven cities we reviewed as part of this audit received such funding, which we refer to as *ARPA funding*. Federal guidance on the regulations that govern ARPA funding prohibits recipients from using ARPA funding for debt service or to replenish financial reserves. However, the regulations permit recipients to claim a standard allowance of up to $10 million in ARPA funding as replacement for lost revenue. In effect, by claiming the lost revenue allowance, recipients could spend their ARPA funding on a wide range of activities and choose to save the revenue that they would have otherwise spent on those activities. To avoid reverting ARPA funding back to the federal government, recipients must spend the entirety of their ARPA funding by December 31, 2026.

Table 1
Total ARPA Funds Awarded to the Seven Cities We Audited

CITY	TOTAL ARPA FUNDS AWARDED
Blythe	$4,700,000
El Cerrito	6,100,000
Lindsay	3,200,000
Lynwood	24,400,000
Montebello	16,800,000
San Gabriel	9,500,000
West Covina	19,600,000

Source: U.S. Department of the Treasury and the California Department of Finance.

Proposition 218

Proposition 218—a constitutional amendment adopted by the voters in 1996 to limit the ability of local governments to impose taxes, assessments, charges, and fees based on property ownership—prohibits the use of revenue from fees and charges for any purpose other than that for which the fee or charge was imposed. It also establishes that revenue from the fees and charges may not exceed the costs of providing such services. Proposition 218 helps ensure that the proposed levy amount is proportionate to the cost of the related governmental activity and prohibits local governments from using fee revenue on unrelated expenses.

Guidance on Reserves for General Purpose Governments

According to the Government Finance Officers Association (GFOA), it is essential that governments maintain adequate levels of general fund balances to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures. As a best practice, the GFOA recommends that governments, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. We use the term *unrestricted* when discussing funding over which the government has discretion (i.e., no constraint) over how the funds can be spent. For the purpose of our report, we refer to unrestricted general fund balances as *general fund reserves*.

Other Post-Employment Benefits

City governments can provide compensation packages to employees who have completed their active service. The Governmental Accounting Standards Board defines Other Post-Employment Benefits (OPEB) as retirement health benefits provided separately from or through a pension plan, as well as other benefits such as life insurance or long-term care benefits as long as the city provided those benefits separately from a pension plan. OPEB benefits may include medical, dental, vision, hearing, and other health-related benefits paid subsequent to the termination of employment. According to the GFOA, OPEB and defined benefit pension plans can represent a significant challenge in terms of their funding and long-term stability. To ensure that these benefits are sustainable over the long term, the GFOA recommends governments evaluate key items specifically related to OPEB, including the structure of benefits offered.

Agencies' Proposed Corrective Action

Lindsay and West Covina acknowledged our current assessment of their progress in addressing their respective risk areas. Montebello generally concurred with our recommendations for addressing the risk areas that we determined were not fully addressed, but the city disputed some of our statements and conclusions about those areas. Although none of these cities submitted a corrective action plan as part of its response, we look forward to receiving the plans by February 2025.

The City of El Cerrito Has Taken Corrective Action to Address Its Risk Areas, and the State Auditor Is Removing Its High-Risk Designation

RISK AREAS AS REPORTED IN MARCH 2021		STATE AUDITOR'S CURRENT ASSESSMENT OF EL CERRITO'S PROGRESS IN ADDRESSING THE RISK AREA*
El Cerrito's Failure to Manage Its Spending Resulted in Depletion of Its General Fund		
1	Continual diminishing of financial reserves through overspending	Fully Addressed
2	Ineffective budget development and monitoring practices	Fully Addressed
Without a More Coordinated Effort, El Cerrito's Financial Condition Will Continue to Deteriorate		
3	Lack of formal financial recovery plan	Fully Addressed
4	Insufficient reductions in ongoing costs	Partially Addressed
5	Missed opportunities to increase revenue	Fully Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in addressing each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

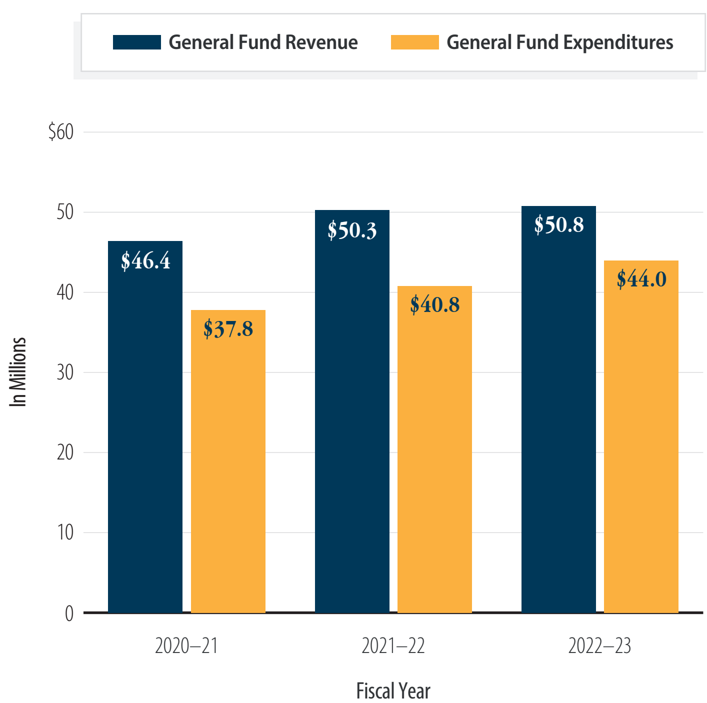
HIGH-RISK AREA #1
Continual Diminishing of Financial Reserves Through Overspending

Status: We conclude that El Cerrito's recent fiscal performance and increased general fund reserves demonstrate that it has fully addressed this risk area.

In our March 2021 audit, we reported El Cerrito was at high risk of being unable to meet its financial obligations. In the fiscal years preceding that audit, the city had consistently spent more than its general fund revenue and was relying on short-term loans to cover its financial obligations. However, in recent years, El Cerrito has made a concerted effort to control its finances and has stabilized the condition of its general fund. Further, in our March 2023 assessment, we reported that because of its improved financial position, the city discontinued its practice of short-term loan borrowing in fiscal year 2022–23. El Cerrito's adopted budgets for fiscal years 2023–24 through 2025–26 assume that the city will meet its debt obligations in those years without the use of short-term loans.

Figure 1 shows that from fiscal years 2020–21 through 2022–23, the city's general fund revenues exceeded its expenditures, which assisted the city in growing its general fund reserves to $23 million by the end of fiscal year 2022–23, which is an amount equal to about half of its general fund expenditures for that year. This amount surpasses the minimum of two months of unrestricted reserves the GFOA advises governments to maintain. According to the city's fourth quarter budget update for fiscal year 2023–24, El Cerrito expects its revenue to nearly cover its expenditures, with the shortfall being about $186,000. This amount represents less than 1 percent of the city's expected total expenditures for that fiscal year. According to its projections for future fiscal years, which extend as far as fiscal year 2028–29, the city expects that it may occasionally need to rely on its reserves starting in fiscal year 2026–27. However, the amount it expects to need in its reserves is proportionately small—less than 2 percent of the budgeted expenditures. Finally, the city also benefited in recent years from its receipt of about $6.1 million in ARPA funding. As of March 2024, the city reported having spent all of this funding and having used it for a variety of general government purposes, such as the provision of public safety services and on administrative facilities.

Figure 1
The City of El Cerrito's General Fund Expenditures Have Been Consistently Less Than Its Revenue in Recent Years



Source: El Cerrito's ACFRs.

Note: We calculated revenue by combining the revenue and transfers into the general fund in each fiscal year. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year. The city did not have any material amounts of other financing sources or uses flowing in or out of its general fund in these three fiscal years.

The city has several strategies planned that could help it minimize reliance on its general fund reserves. For example, according to its biennial budget for fiscal years 2024–25 and 2025–26, the city intends to develop a citywide cost allocation plan and comprehensive fee study. Doing so will better ensure that the city is distributing costs across its funds in the most appropriate way, potentially lessening the burden on its general fund, and that it maximizes cost recovery from the service fees it charges. The city intends to follow those studies with a service delivery study to ensure that it delivers services in the best and most efficient ways. The city estimates that it will complete the cost allocation plan in December 2024 and the fee study in February 2025. The city's budget states its intent to complete the service delivery study sometime in fiscal year 2025–26. El Cerrito's city manager stated that the city will use the data collected from these studies to make informed and sustainable decisions during the next two fiscal years that will improve the city's ability to balance its future budgets and mitigate reliance on general fund reserves.

HIGH-RISK AREA #2
Ineffective Budget Development and Monitoring Practices

Status: In March 2022, we concluded that El Cerrito had fully addressed this risk area by improving its budget process and monitoring departmental spending.

In our March 2022 assessment, we reported that El Cerrito improved its budgeting processes to provide meaningful information for making fiscally sound decisions. The city improved its quarterly budget updates to the city council by providing revenue and expenditure amounts by department and comparing those amounts to both its budget and prior-year expenditures. This additional level of detail can assist city council members in identifying when a particular department may be overspending. The city has also improved the information presented in its adopted budgets. Its fiscal year 2021–22 budget included a five-year forecast with a comparison to the prior four-year period. Finally, its adopted fiscal years 2024–25 and 2025–26 biennial budget includes a forecast through fiscal year 2028–29 and a comparison of the prior two fiscal years.

HIGH-RISK AREA #3
Lack of Formal Financial Recovery Plan

Status: In September 2022, we concluded that El Cerrito had fully addressed this risk area by issuing its Fiscal Recovery and Sustainability Plan.

In our September 2022 assessment, we noted that El Cerrito issued its Fiscal Recovery and Sustainability Plan in August 2022 and concluded that the city addressed this risk area. The city organized the plan by the actions it planned to take, and it identified a lead staff member, a target date of completion, and an annual fiscal impact for nearly all of the actions. Further, the city divided the plan into actions the city council had approved in August 2020, such as the elimination of the assistant to the city manager position; actions the city identified that it could still take; and actions based on recommendations from our 2021 audit. The plan provides a number of objectives for the city to improve its financial condition and information that will allow the city council and the public to hold the city accountable.

HIGH-RISK AREA #4
Insufficient Reductions in Ongoing Costs

Status: We conclude that El Cerrito has partially addressed this risk area by making an effort to reduce personnel costs and completing a citywide salary study. Nonetheless, the city will need to be attentive to costs in the future because the recent salary study could generate pressure to increase personnel costs.

Through a variety of methods, El Cerrito has controlled its spending and has kept the growth of its expenditures below the growth of its revenue. Since fiscal year 2019–20, general fund revenue has grown 27 percent, and expenditures have grown only 10 percent. By freezing salaries, eliminating positions, and instituting controls for departmental spending, the city has limited ongoing costs. For example, the city did not implement cost-of-living increases for its management and confidential employees in fiscal years 2020–21 and 2021–22. In addition, in fiscal year 2021–22, the city eliminated seven positions in its police department, some of which had become vacant because of retirements and resignations. By fiscal year 2022–23, the city had decreased the police department's personnel costs by 3.4 percent from their fiscal year 2020–21 levels. However, the city reported that the actions it took to reduce the budget and staffing had a detrimental impact on the department, which the city asserts experienced high vacancies in 2022. According to its fiscal year 2022–23 budget, in fiscal year 2021–22 the city employed individuals in 28 of 37 authorized sworn positions. To address the police union's concerns, the city agreed to adjustments in salary ranges and pay differentials according to educational experience. As a result, although costs declined in fiscal years 2020–21 through 2022–23, the city budgeted to increase the police department's personnel costs by 18 percent in fiscal year 2023–24.

To sustain its financial health, the city will need to carefully approach any future compensation increases. In response to our 2021 audit, the city commissioned a salary study. In February 2024, the city received the results of that study, which identified that the city compensated some of its positions—including some public safety positions—at less than the market median when compared to similar positions at 18 other entities. The study found that, overall, the city's base salaries were approximately 8 percent less than the market median. Further, the city's total compensation, which includes salary and benefits, was about 2 percent less than the market median. Although the study did not explicitly recommend that the city raise compensation for its employees, it did provide suggested approaches the city could take to adjust its compensation. In March 2024, the city reported to our office that it plans to implement the study's recommendations over time, and as resources allow, through bargaining and other phased adjustments, and it expects that doing so will assist the city in recruiting, motivating, and retaining competent staff, including its public safety staff.

The city's fiscal years 2024–25 and 2025–26 biennial budget notes that the city was engaged in negotiations with several bargaining groups at the time it developed the budget. Therefore, the city may need to amend its budget if the negotiated compensation amounts exceed its budgeted costs. According to the adopted budget, the city plans to increase personnel costs by 6.4 percent in fiscal year 2024–25 and by 5 percent in fiscal year 2025–26. Overall, El Cerrito's personnel costs represented 73 percent of the city's budgeted general fund expenditures for fiscal year 2024–25. However, despite the upcoming challenge the city faces in determining how much to compensate its employees, the city has appeared to have maintained fiscal discipline in the past few years, which indicates that it is committed to overall fiscal health when deciding such matters. Finally, the city may also find that the cost allocation plan, fee study, and service delivery study that we mention earlier present it the opportunity to save additional amounts in its ongoing expenditures, which the city could then use to balance any increases in personnel expenditures.

HIGH-RISK AREA #5
Missed Opportunities to Increase Revenue

Status: In September 2023, we concluded that the city had fully addressed this risk area by completing a cost recovery analysis for its recreational services.

In our September 2023 assessment, we concluded that the city addressed this risk area. In particular, we noted that El Cerrito continued to subsidize its senior services with budgeted revenue for fiscal year 2023–24 covering 80 percent of the cost of those services—about $88,000 according to the city's budget documents. In its 2023 update to our office, the city reported that full cost recovery would not provide services at an acceptable cost that contributes to the quality of life of all people in El Cerrito. Because the city has made a policy decision to subsidize these costs and the amount of the subsidy is relatively small, we considered the risk area addressed.

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The City of Lynwood Has Made Significant Progress in Addressing Its Risk Areas, and the State Auditor Is Removing Its High-Risk Designation

	RISK AREAS AS REPORTED IN DECEMBER 2018 AND SEPTEMBER 2021	STATE AUDITOR'S CURRENT ASSESSMENT OF LYNWOOD'S PROGRESS IN ADDRESSING THE RISK AREA*
Inadequate Financial Management Hinders Lynwood's Fiscal Stability		
1	Ongoing budget deficits and uncertain financial future	Fully Addressed
2	Inadequate budgeting practices	Fully Addressed
3	Questionable salary increases	Fully Addressed
Violations of State Law, Weak Oversight, and Policy Breaches Make Lynwood Susceptible to Fraud and Waste		
4	Violations of state law regarding the use of water and sewer funds	Fully Addressed
5	Poor contract administration	Fully Addressed
6	Inadequate controls over its financial operations	Fully Addressed
Ineffective Organizational Management Diminishes Lynwood's Ability to Provide Public Services		
7	Lack of strategic plan	Partially Addressed
8	Inability to effectively measure staffing needs	Pending
9	Significant turnover in key positions and no plan for identifying future leadership	Partially Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in addressing each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

Pending: The city has not taken substantial action to address the risk area and, at the time of this audit, the conditions that created high risk for the city continue to exist.

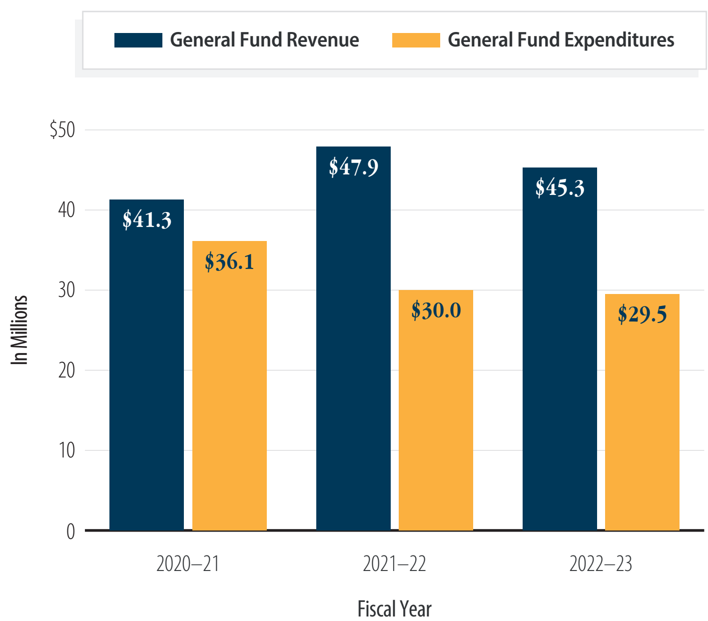
HIGH-RISK AREA #1
Ongoing Budget Deficits and Uncertain Financial Future

Status: We conclude that Lynwood's fiscal improvement and increased general fund balance demonstrate that it has fully addressed this risk area.

In our September 2021 follow-up audit, we determined that Lynwood did not always keep its general fund reserves at recommended levels, and we recommended that the city revise its reserve policy to align with GFOA best practices to facilitate ongoing financial stability and guard against short-term revenue shortfalls.

Since that audit, the city has increased its general fund reserves and has maintained its expenditures below revenues. Figure 2 shows that the city's revenue has increased over a three fiscal year period. By the end of fiscal year 2022–23, the city's general fund reserves had grown to $47.5 million—more than its revenue for that year and substantially surpassing the minimum of two months of unrestricted reserves the GFOA advises governments to maintain. A significant factor in the advances that the city made in its general fund reserves was the city's receipt of a total of $24.4 million in ARPA funding across fiscal years 2021–22 and 2022–23. The city was able to use this funding in place of its regular general fund revenue, thus allowing it to retain that regular revenue to be available for other needs.

Figure 2
The City of Lynwood Kept General Fund Expenditures Below Revenue for Three Straight Fiscal Years



Source: Lynwood's ACFRs.

Note: We calculated revenue by combining the revenue and transfers into the general fund in each fiscal year. This figure does not include other financing sources flowing into the general fund in the amount of $2 million in fiscal year 2021–22 that resulted from a one-time sale of assets. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year.

In addition, in October 2024, Lynwood adopted a reserve policy that aligns with GFOA guidance. Because of the city's recent history of keeping spending below revenues and its improved general fund reserves, we determined that the city has mitigated this risk area.

HIGH-RISK AREA #2
Inadequate Budgeting Practices

> *Status: We conclude that Lynwood has fully addressed this risk area regarding its budgeting practices by adopting meaningful practices and formalizing those practices as required actions in its policies.*

In our September 2021 follow-up audit, we raised concerns that Lynwood's budgeting process posed a risk to the city because it was incomplete and not done in a timely manner. As a result, we recommended that the city meet the specified timeframes in its budget calendar in future budget cycles. The city council's recent actions show that Lynwood is now adopting budgets on time. The city council approved the city's biennial budget for fiscal years 2023–24 and 2024–25 before the start of that period, which is the only full budget the city prepared since the conclusion of our last audit. The city council also approved the mid-cycle update to that budget before the start of fiscal year 2024–25.

We also determined in our September 2021 audit that the city should follow its existing policy and provide quarterly reports to its city council that compare budgeted to actual general fund revenue and expenditures. Further, we recommended that the city align its policy on quarterly reporting with GFOA best practices for budget monitoring. For example, the city's policy should require the city's staff to present an analysis of the reasons for budget deviations. For fiscal year 2023–24, the city provided the city council with quarterly reports, each of which presented the budgeted general fund revenue and expenditures to actual general fund revenue and expenditures and explained the variances between these amounts. The city adopted a policy in October 2024 that formalized the expectation that it continue its practice of providing quarterly reports to the city council.

Finally, our 2021 audit noted that the city had not adopted a policy to produce multi-year projections of its revenues and expenditures. Subsequently, the city included a multi-year projection of its general fund revenues and expenditures as part of its biennial budget for fiscal years 2023–24 and 2024–25. The city also formalized its practice of creating multi-year projections in its October 2024 policy update.

HIGH-RISK AREA #3
Questionable Salary Increases

> *Status: We conclude that Lynwood has fully addressed this risk area by assessing its compensation against other cities and presenting reasons for proposed increases to its city council.*

In our September 2021 follow-up audit, we reported that Lynwood was not complying with its salary-setting policy. Specifically, in the three cases we reviewed, Lynwood did not maintain documentation showing it had compared its proposed salaries to those in benchmark cities. In two of these cases it did not present the justification for the proposed salaries to the city council.

During this audit, we found that the city was comparing salaries for certain city positions to those of other cities and that it presented justification for a set of proposed salaries to its city council. We reviewed the city's 2023 salary survey, which evaluated salaries for 13 city positions, comparing the salaries for those positions to the salaries for similar positions when they existed at 10 nearby cities. The city's director of human resources and risk management explained that the city conducted the salary survey during its negotiations with the bargaining unit that represented the employees in those positions. At the conclusion of negotiations, the city presented to the city council the proposed salaries for those positions and explained that the salaries resulted from the agreement the city had reached with the bargaining unit. Because Lynwood is documenting its salary-setting analysis and has shared its rationale for raising salaries with the city council, there exists better assurance that it is setting competitive and reasonable salaries in a transparent manner.

HIGH-RISK AREA #4
Violations of State Law Regarding the Use of Water and Sewer Funds

Status: We conclude that Lynwood has fully addressed this risk area through the elimination of lease payments from its utility authority and the use of a cost allocation plan that identifies water and sewer costs.

In our September 2021 follow-up audit, we identified risks associated with the city making inappropriate transfers to its general fund through a lease arrangement it established for its water and sewer infrastructure. Specifically, we noted that in fiscal year 2019–20 the city established a $1 million lease payment to its general fund from the utility funds, an amount for which the city could not provide justification. Consequently, we recommended that the city dissolve the Lynwood Utility Authority (utility authority), the entity with which it made the lease arrangement, and discontinue making any lease payments. In response, Lynwood declined to dissolve the utility authority and stated that the utility authority has issued revenue bonds. We agree that the city's concerns about dissolution are valid, insofar as the dissolution of the utility authority could potentially represent a breach of contract with the bond holders. Further, we noted that the city has planned to stop making the lease payments to the general fund. The city's fiscal year 2024–25 budget shows no plans to transfer the $1 million lease payment to the general fund. Accordingly, we consider this element of the area of risk resolved.

The city recently addressed a concern regarding reimbursement for overhead costs from its water and sewer funds to its general fund. In our September 2021 report, we noted that the city had not approved updated cost allocation plans that it could have used to support the amount it transferred from its water and sewer funds to its general fund for overhead charges. We concluded that the city was at risk for either over- or under-reimbursing the general fund. In April 2024, the city received the results of another cost allocation study, which identifies the city's overhead costs that the general fund may recover from the water and sewer funds. The city incorporated those adjusted overhead costs into its revised fiscal year 2024–25 budget. These adjustments resulted in an overall reduction in payments of approximately $80,000 from the water fund and an increase in payments of about $69,000 from the sewer fund.

HIGH-RISK AREA #5
Poor Contract Administration

Status: We conclude that Lynwood's steps to strengthen its contract administration demonstrate that it has fully addressed this risk area.

In our September 2021 follow-up audit, we found that Lynwood had not addressed a recommendation we had made in the 2018 audit that it amend its municipal code to require the city council to provide adequate written justification when bypassing competitive bidding through a supermajority vote and to define when such an action is appropriate. We also observed that the city had exempted contracts for garbage collection from competitive bidding, which we found jeopardized the city's ability to obtain the best value for its residents and community. In October 2022, the city council approved updates to the sections of its municipal code addressing procurement procedures. The municipal code no longer includes provisions for the city council to use a supermajority vote to exempt a purchase from competitive bidding requirements or exemption from competitive bidding for garbage collection contracts. Further, unless the purchase is a type preapproved in the city's municipal code for sole source procurement, the city's procurement policy requires it to use a competitive sourcing process whenever a product or service is available from more than one source and is valued at more than $5,000. In August 2023, the city provided training to its staff on its updated requirements for contracting and purchasing. The training addressed the municipal code sections the city amended in October 2022 and amendments to its contracting and purchasing policy.

HIGH-RISK AREA #6
Inadequate Controls Over Its Financial Operations

Status: In a previous audit, we concluded the city fully addressed external audit findings regarding control weaknesses in its financial operations.

In our September 2021 follow-up audit, we determined that the city had fully addressed this risk area and addressed an external auditor's findings regarding controls over its financial operations.

HIGH-RISK AREA #7
Lack of Strategic Plan

Status: We conclude that Lynwood has partially addressed its risk related to strategic planning.

Although the city engaged a consultant to help it to develop strategic priorities, that work did not include the development of specific strategies and outcomes to accompany the strategic priorities. Instead, the consultant's report indicated that the city's executive management team would meet later to identify those elements of a strategic plan. The city's director of human resources and risk management confirmed that the city has not developed a full strategic plan, and he indicated that the city would work beginning in 2025 to select a vendor to assist it in developing a strategic plan.

HIGH-RISK AREA #8
Inability to Effectively Measure Staffing Needs

Status: We conclude that Lynwood has not addressed its risk related to its inability to effectively measure staffing needs.

In our September 2021 follow-up audit, we found that the city could not effectively determine whether its staffing levels were sufficient and appropriate to efficiently address the city's priorities for the services that it provides. We identified that, according to the GFOA, strategic planning establishes logical connections between spending and an entity's goals and that the focus of strategic planning should be on aligning resources to bridge the gap between present conditions and the envisioned future. Therefore, strategic planning is a critical element to a city's ability to identify the appropriate staff levels it needs to achieve its goals. Accordingly, it will be important for the city to reassess its staffing after it develops a strategic plan. The city's director of human resources and risk management stated that the city will work to align its staffing to achieve its goals within the strategic plan the city plans to develop, but any changes in staffing levels or the allocation of staff will be subject to the city's budget constraints and availability of funding.

HIGH-RISK AREA #9
Significant Turnover in Key Positions and No Plan for Identifying Future Leadership

Status: We conclude that Lynwood has partially addressed its risk related to significant turnover in key positions and a lack of a plan for identifying future leaders.

In April 2022, in response to our previous audits of the city, the Lynwood city council adopted the city's succession plan, which has the purpose of identifying and developing internal staff with the potential to fill the city's key leadership positions. Among other actions, the plan calls for regular and recurring gap analyses to identify projected openings in positions that require certain skill sets, leadership and professional training opportunities, and job shadowing to provide opportunities for aspiring employees to develop an understanding of the positions into which they wish to advance.

Lynwood has begun implementing its plan. The city provided us with its September 2024 gap analysis identifying the city positions that face the greatest risk of employee retirements, and the director of human resources and risk management indicated that the city would amend its succession plan policy to include provisions for conducting the gap analysis annually. He also described his plan to coordinate with the city manager to develop a policy that would require department managers to document the processes they use to make key decisions to provide continuity among leadership, and he anticipated the city would complete that policy by the end of March 2025. In our September 2021 audit, we found that the city had implemented a leadership academy, and the human resources director described leadership training sessions from 2023 that the city was providing to designated staff members as part of that academy. However, he also confirmed that the city has not yet started its job shadowing program. As the city continues to plan for retirements from key positions, it should implement the remaining elements of its succession plan, such as the job shadowing program, as well as the policy changes described by the director of human resources and risk management.

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The City of San Gabriel Has Made Substantial Progress in Rebuilding Its Reserves and Addressing Other Risks, and the State Auditor Is Removing Its High-Risk Designation

RISK AREAS AS REPORTED IN APRIL 2021		STATE AUDITOR'S CURRENT ASSESSMENT OF SAN GABRIEL'S PROGRESS IN ADDRESSING THE RISK AREA*
San Gabriel's Poor Financial Management Has Eroded Its Financial Condition		
1	Declining financial health	Partially Addressed
2	Unfavorable loan agreements	Fully Addressed
3	Incomplete financial projections	Fully Addressed
San Gabriel Needs to Consider Additional Expenditure Reductions and Revenue Increases		
4	Rising employee retirement costs	Partially Addressed
5	Operational losses from the Mission Playhouse	Fully Addressed
6	Incomplete cost recovery	Fully Addressed
Gaps in San Gabriel's Management Controls Increase the Risk of Inefficiency and Waste		
7	Lack of competitive bidding	Fully Addressed
8	Inadequate contract management	Fully Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in addressing each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

HIGH-RISK AREA #1
Declining Financial Health

Status: We conclude that San Gabriel has partially addressed this risk area by building its general fund reserves and operating at a net surplus in its general fund each year.

In our April 2021 audit, we found that the city's general fund reserves decreased steadily from fiscal years 2014–15 through 2017–18 because of three primary reasons: a public works loan that restricted the availability of general fund cash due to a collateral requirement, insufficient oversight by the city council, and a lack of transparency by former city management. At the lowest point, the city's general fund reserves decreased to a deficit of $9.9 million in fiscal year 2017–18.

As a part of this audit, we found San Gabriel's general fund reserves have recovered largely because of increases in the city's tax revenue as well as one-time infusions of funding. At the end of fiscal year 2022–23, the city's general fund reserves were about $15.8 million—equaling three and a half months of its expenditures for that year. Assisting the city in reaching that level of reserves has been Measure SG, a new sales tax measure that went into effect in July 2020 and that has helped to increase tax revenue to the city from $22 million in fiscal year 2019–20 to $35 million in fiscal year 2022–23. The city also paid off the outstanding balance of its public works loan, which freed more than $5.8 million in funds to be available as unrestricted. Finally, the city used ARPA funds as lost revenue to pay for general government services. The city received a total of $9.5 million in ARPA funds during fiscal years 2020–21 and 2021–22, which allowed it to set aside some of its general fund revenue into reserves.

Although the city has in part relied on one-time events to rebuild its reserves, it also maintained a cumulative surplus of more than $15 million in its general fund over a three-year period of fiscal years 2020–21 through 2022–23. Figure 3 shows the city's general fund revenue and expenditures for those fiscal years, inclusive of the annual transfers that the city made into the general fund. San Gabriel has historically relied on a special property tax to help pay the retirement costs of city employees (retirement tax), which San Gabriel voters originally approved in 1948. The city maintains the revenue from that tax in its retirement fund. Because this tax supports the city's ongoing retirement costs, we considered it functionally equivalent to general fund operating revenue.

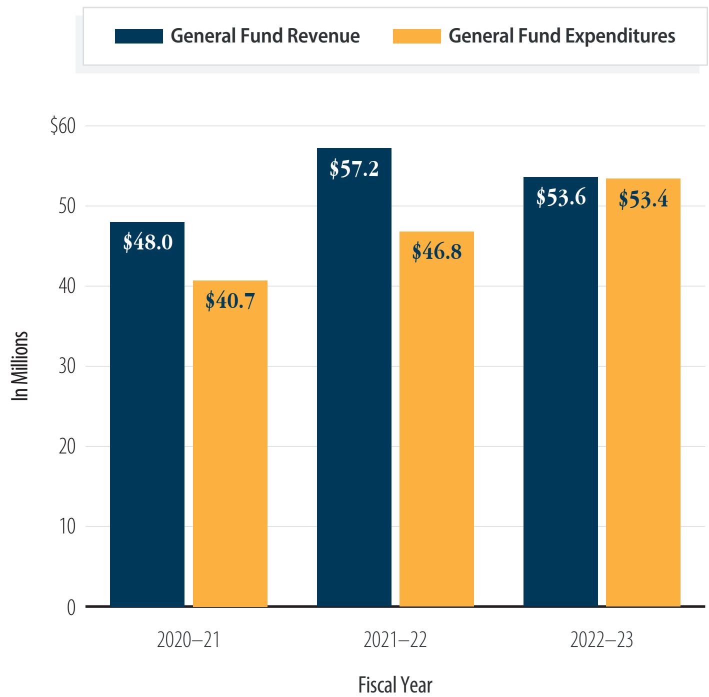
San Gabriel has made significant progress in addressing its general fund reserves, but it should continue to build its reserve. The city's reserve amount as of the end of fiscal year 2022–23 was equivalent to about three and a half months' worth of that year's general fund expenditures. Although this amount surpasses the GFOA guidance about minimum reserve levels, the GFOA also advises governments to set their reserve levels at amounts that are appropriate for their unique circumstances. Given that San Gabriel must still address challenges in meeting its OPEB obligations—which we describe more about later—the city would be in a better position if it increased the reserves that it sets aside for potential future financial challenges.

HIGH-RISK AREA #2
Unfavorable Loan Agreements

Status: We conclude that San Gabriel has fully addressed this risk area by paying the outstanding balance of its public works loan and not entering into additional loan agreements.

As indicated above, the city took out a public works loan of $7.8 million in December 2014, which significantly restricted the city's ability to fund its city services using cash from the general fund because the loan agreement required that the city

Figure 3
The City of San Gabriel's Expenditures Have Been Below Its General Fund Revenue in Three Recent Fiscal Years



Source: San Gabriel's ACFRs.

Note: We calculated revenue by combining the revenue and other financing sources into the general fund in each fiscal year. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year.

pledge an amount of funds equal to the borrowed amount as collateral. Our April 2021 audit report found that the city council and the city's management team at the time did not adequately evaluate the financial impact of the loan. We recommended that the city develop a plan to renegotiate or refinance the public works loan. In fiscal year 2022–23, San Gabriel paid off the loan's remaining balance of nearly $6 million, freeing up the general fund money that the bank used as collateral.

San Gabriel has also implemented our recommendation to create a policy that requires city staff to present options and considerations to its city council when entering into debt, including an analysis of alternative methods of financing and the impact on city finances. The city updated its debt management policy per our recommendation in January 2023. Further, other than two lease purchase agreements for the acquisition of public safety equipment totaling $1.4 million, the finance director asserts that the city has not taken on any new loans or debt since we issued our last audit. Before entering into these agreements, city management presented different financing options to the city council and described each option's potential impact on the city's finances. For example, in April 2022, city management presented to the city council options for purchasing or leasing two fire apparatuses for the fire department. The city council authorized staff to purchase one apparatus, but only if the terms would be the same as the terms offered for the two apparatuses. Providing these types of analyses allows the city council and city management to make informed decisions and strengthens the city council's oversight on city finances. San Gabriel has shown improvement in this area, sufficiently addressing the associated risk.

HIGH-RISK AREA #3
Incomplete Financial Projections

Status: We conclude that San Gabriel has fully addressed this risk area by producing financial projections that provide a reasonable basis for financial planning for major categories of revenue and expenses.

In our April 2021 audit, we found that the city did not consider key factors such as collateral for the public works loan, the impact of the pandemic, nor potential salary increases when developing its five-year financial projection. We noted that the GFOA considers it a budgeting best practice to analyze major revenue sources to identify forecasting assumptions and determine whether potential trends are likely to continue. To ensure that San Gabriel had relevant information for making decisions, we recommended the city update its financial projections to include in-depth analysis of key revenue sources and future costs.

To assess the accuracy of San Gabriel's more recent forecasts, we compared its financial projections for fiscal years 2022–23 and 2023–24 that the city made in its 2021–22 budget to the information about actual financial performance for those years found in the city's ACFR and budget documents. In general, the city developed conservative projections of its revenue. The largest revenue category for the city is its tax revenue, which was more than 80 percent of the city's annual revenue in fiscal year 2022–23. For both fiscal years we reviewed, the city's projection under estimated what its tax revenue would be by more than 10 percent. This underprojection meant that during its budgetary deliberations, the city expected to have less revenue than it would ultimately have at its disposal. We acknowledge that conservative projections of revenue are less problematic than overprojections, which could cause a city to unknowingly plan to spend beyond its capacity.

The city has generally been more accurate when projecting its expenditures. After adjusting for a one-time debt payment the city made in fiscal year 2022–23, the total expenditures the city made in fiscal years 2022–23 and 2023–24 were both within 10 percent of the forecasted amounts. Personnel costs are close to 75 percent of the city's general fund expenditures, and the city projected these costs within 5 percent in each of the two fiscal years we reviewed, which is a relatively close margin.

Although San Gabriel's forecasts have at times been different than its actual financial performance, we found that its projections for fiscal years 2022–23 and 2023–24 were generally close to the city's actual financial performance and therefore they were reasonable estimations for financial planning purposes. Accordingly, we consider this risk area fully addressed.

HIGH-RISK AREA #4
Rising Employee Retirement Costs

Status: We conclude that San Gabriel has partially addressed this risk area by contributing to its OPEB trust and reducing post-employment medical benefits for new employees.

In our April 2021 audit, we estimated that the retirement tax revenue would not be sufficient to cover pension costs from fiscal year 2020–21 through 2024–25. However, in fiscal years 2020–21 through 2022–23 (the most recently completed ACFR at the time of our audit) the city has covered all but less than 2 percent of its pension costs using the retirement tax revenue it collected in those years, along with the available amounts it has retained as a balance in the associated fund. In other words, the city has not needed to use general fund revenue in any substantive manner to pay for its pension costs.

Although the city may not always be able to pay for its pension obligations through its retirement tax alone, we are not as concerned about the city's overall ability to pay these pension obligations. The city's projections show that it will need to use general fund money to cover about $230,000 of its pension obligations in fiscal year 2025–26 and intermittently use general fund money in subsequent fiscal years as well. The city's finance director explained that the city's projections assume zero vacant positions to represent the upper threshold of the potential costs it could face. In the event that the retirement tax does not generate enough revenue to cover pension costs, he stated that the city will likely borrow from the general fund and repay the borrowed amount using retirement tax revenues generated in the following years. The city's projections show that in each year where the city expects to borrow from the general fund to pay for pension obligations, the retirement tax will generate enough revenue in the subsequent years to repay the general fund within two years.

In addition, our April 2021 audit report found that the city had been paying less than the amount needed to fully fund the costs of its OPEB benefits, increasing its total net obligation for OPEB. We noted that the city's unfunded OPEB liability nearly doubled in only two years, in part because the city had stopped prefunding these costs. As of the June 2023 reporting date, the city's net OPEB funding ratio was 13 percent, with more than $44 million in unfunded liability.

San Gabriel has taken some steps to address its OPEB liability. At the time of our April 2021 audit, San Gabriel did not require its employees to contribute to their OPEB costs, and we recommended that the city negotiate with its unions to require employees to contribute. According to the finance director, the city's primary focus has been on removing the lifetime medical benefit for future employees rather than negotiating with employees to contribute to the OPEB liability. The city negotiated with its unions to change post-employment medical benefits for employees hired after January 2023 to the Public Employees' Medical Hospital Care Act (PEMHCA) statutory minimum level of benefits. In order to calculate the savings resulting from eliminating the lifetime medical benefit and assigning new employees to the PEMHCA plan, the finance director stated that the city would need to contract the services of an actuarial firm. Although the magnitude of the benefit the city will eventually realize from this change is not clear, the step the city has taken will have positive effects on its overall retirement obligations at some time in the future.

In addition, the city contributed to its OPEB trust for the first time in five years. The city's OPEB trust provides a way for the city to prefund its OPEB obligation and reduce its overall OPEB liability. In June 2024, the city contributed $250,000 to the OPEB trust, bringing the trust's cumulative value to nearly $8.3 million. Also, the city has budgeted another $250,000 payment towards the trust in fiscal year 2024–25 and included contributions in this amount each year in its five-year forecast through fiscal year 2029–30. Although these are positive steps towards addressing the city's OPEB liabilities, the annual contribution amount is very small compared to the city's overall liability for OPEB. Even an annual contribution of double the amount the city is planning on making would increase the city's OPEB funding ratio by only 1 percent when using the outstanding liability of $44 million we describe above. Therefore, based on the actions it has taken and the sizeable OPEB liability the city still incurs, we consider the city to have partially addressed this risk area.

HIGH-RISK AREA #5
Operational Losses From the Mission Playhouse

Status: We conclude that San Gabriel has fully addressed this risk area by reducing the general fund subsidies it provides.

Our April 2021 audit report noted concerns regarding the Mission Playhouse's significant and consistent operating deficits that required the city to provide funding for it to remain solvent. The city subsidizes the operations of its Mission Playhouse—a community center that hosts various events, such as theater and music performances, and public meetings. According to the city's ACFRs, for fiscal years 2020–21 through 2022–23, the playhouse continued to operate at a deficit and relied on general fund transfers. The finance director confirmed that the city council is committed to providing the Mission Playhouse services to the public and that it views the theater as a vital arts and entertainment service for the community. The finance director highlighted that the city has more recently decreased the amounts it transfers from its general fund. In fiscal years 2020–21 through 2022–23, the city transferred slightly more than $1 million to the Mission Playhouse—an average of $350,000 each year. This average represents a significant reduction in transfers, namely half the amount we reported in our April 2021 audit, thus indicating that the city has made efforts to reduce its costs.

In addition, the city has made efforts to improve costs and operations at the Mission Playhouse. For example, the city eliminated the Mission Playhouse director position from its fiscal year 2021–22 budget and assigned oversight of the playhouse to the community services director. The playhouse's budgeted expenses decreased 22 percent that fiscal year. Further, the playhouse obtained a new ticketing system that the city asserts better serves its needs, results in lower ticket fees, and offers a more user-friendly interface for staff compared to its previous system.

In light of the significant decrease in the amount of the general fund subsidy, the efficiency gains, and the public benefit that the Mission Playhouse provides, we consider the city to have fully addressed this risk area.

HIGH-RISK AREA #6
Incomplete Cost Recovery

Status: We conclude that San Gabriel has fully addressed this risk area by updating its service fees annually.

In our April 2021 audit, we noted that the city had not evaluated whether the fees it charged for services aligned with the full cost of those services. In addition, we identified that the city had not adjusted a majority of its fees since 2016, and some had not changed since 2002. Consequently, the city had not ensured that it collected the commensurate amount of revenue that could have helped relieve the financial burden on the city's general fund. To ensure that the fees it charged for services align with their costs, we recommended that San Gabriel implement policies and procedures requiring it to reevaluate the cost of its fee-funded services at least every three years.

The city has increased its service fees and plans to increase those fees annually as adjusted to the Consumer Price Index (CPI) for the Los Angeles Metro area. The city's March 2021 fee study determined that the city's fiscal year 2020–21 fee revenue recovered only 42.5 percent of the city's service costs, causing the city to lose nearly $6.6 million in subsidies. In the two fiscal years following the study, San Gabriel's revenue from its charges for services averaged $4 million—an increase of 64 percent compared to the revenue the city generated in fiscal year 2020–21. In addition, from fiscal years 2021–22 through 2024–25, the city council passed annual resolutions that require the city to conduct comprehensive fee reviews at least once every five years to ensure that it is adequately recovering the cost of providing services. The finance director stated that the city intends to complete another fee study in fiscal year 2025–26. Because it has raised its fees to collect revenue more commensurate with its costs and plans to take similar action in the future, we consider this risk area addressed.

HIGH-RISK AREA #7
Lack of Competitive Bidding

Status: We conclude that San Gabriel has fully addressed this risk area by updating its contract bidding policy, and we no longer have concerns about its waste collection agreement.

In our April 2021 audit, we recommended that San Gabriel strengthen its purchasing policies to competitively bid services at least every three years or to document a justification for services that require a longer contract duration. In June 2023, the city updated its contract management administrative procedures, which are intended to strengthen the city's purchasing policies and help to ensure that the city is receiving the best value on all contracted goods and services. The updated procedures direct city staff to rebid contracts for most services every three to five years, a variation from the three-year interval we recommended. The finance director explained that with the exception of its waste collection contract, the city's contracts have durations of three years and allow for two one-year extensions. The finance director further explained that the city's reasoning for allowing contracts with terms as long as five years before being rebid, is that the process to procure services takes a significant amount of administrative time and effort—sometimes taking up to a year to complete—and that the market for services does not change significantly in a period of three years. Because San Gabriel's updated procedures direct staff to present service contracts to the city council at least every five years and to rebid contracts at this same frequency, we conclude that the city has ensured that it will regularly use the competitive bidding process.[1]

In addition, we conclude that the city's waste collection contract no longer presents an immediate risk to the city. In our prior report, we noted concern that San Gabriel had not verified whether its waste collection contract provided the best value to its residents and recommended the city renegotiate with its waste collection company to revise the terms of the agreement. However, in 2023 the city conducted a survey of the residential waste hauler rates of four nearby cities, which showed that San Gabriel's rates were the median rates among all of the cities. Further, according to the contract agreement with the waste collection vendor, any increases to waste collection rates that exceed the increase in the CPI would require the approval of the city council, which means that the city has a control in place to manage the rates its residents pay.

1 The policy makes an exception for the city's waste collection contract, which has a 25-year period and automatically extends another year on an annual basis.

HIGH-RISK AREA #8
Inadequate Contract Management

Status: We conclude that San Gabriel has fully addressed this risk area by developing a centralized system to track current contracts and implementing purchase order controls.

Our April 2021 audit found that San Gabriel did not have a centralized system for monitoring its contracts, which compromised its ability to prevent departments from overspending the amount of their contractual service budgets. We further noted that, because of its insufficient contract tracking system, the city could not track the total costs associated with each of its contracts over multiple years, and city management could not determine total citywide annual contract costs. In June 2023, the city implemented contract management administrative procedures that established a centralized contract depository and strengthened the city's purchasing controls. The procedures require departments to submit contracts approved by the city council to the city clerk, who is supposed to maintain and regularly update a centralized spreadsheet to track the contract vendor, responsible department, and the contract expiration date. We obtained a copy of this spreadsheet and verified that recently approved contracts were included on the spreadsheet. In addition, the city's contract management procedures include purchase order controls that require the finance department to verify that the contract is valid, properly authorized, and that funds are available in the current budget before payments under contracts are allowed. Because of the improvements described above, we conclude that the city has addressed this risk area.

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The City of Blythe Has Addressed Challenges Related to Its Long-Term Financial Stability, and the State Auditor Is Removing Its High-Risk Designation

	RISK AREAS AS REPORTED IN MARCH 2021	STATE AUDITOR'S CURRENT ASSESSMENT OF BLYTHE'S PROGRESS IN ADDRESSING THE RISK AREA*
Blythe's Financial Stability Remains Uncertain Even With Recent Improvements		
1	Low financial reserves	Fully Addressed
2	Need for additional sources of revenue	Fully Addressed
3	Lack of a long-term plan	Pending
Blythe Must Address Deficits in Its Enterprise Funds as Well as Unmet Safety and Infrastructure Needs		
4	Enterprise fund deficits	Partially Addressed
5	Unpaid golf course loan	Fully Addressed
6	Need for public safety resources	Fully Addressed
7	Unaddressed vacant buildings	Fully Addressed
The City Needs More Effective Management Practices to Improve Its Financial Stability and Its Ability to Provide Services to Residents		
8	Utility rates and service fees insufficient to cover costs	Fully Addressed
9	Poor oversight of city contracts	Partially Addressed
10	Lack of a permanent city manager	Pending

* In accordance with state law, we used our professional judgment to assess the city's progress in each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

Pending: The city has not taken substantial action to address the risk area and, at the time of this audit, the conditions that created high risk for the city continue to exist.

HIGH-RISK AREA #1
Low Financial Reserves

Status: We conclude that Blythe's increased general fund reserve demonstrates that it has fully addressed this risk area.

In our March 2021 audit, we determined that Blythe's general fund reserve at the end of fiscal year 2019–20 was $804,000, which was only a little more than one month's worth of operating funds. At the end of fiscal year 2022–23, Blythe had a general fund reserve of $8.3 million, an increase of more than $7 million. This amount was equivalent to more than seven months of annual expenditures, which exceeded both the three months of expenditures that the city's reserve policy states the city will maintain and the GFOA best practice of at least two months.

HIGH-RISK AREA #2
Need for Additional Sources of Revenue

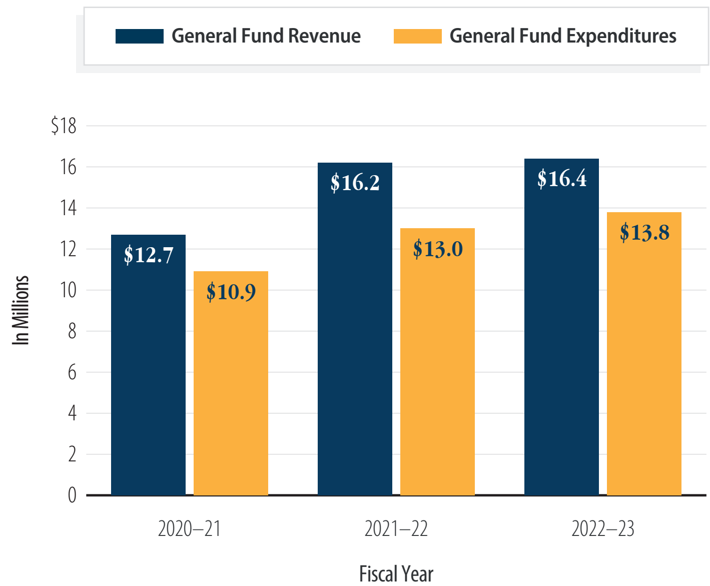
Status: We reported in March 2022 that Blythe had fully addressed this risk area. After that determination, the State decided to close Chuckawalla Valley State Prison. The economic impact of the closure will likely mean that Blythe would benefit from finding additional revenue, but the city has taken steps to address that need.

In 2022 Blythe contracted with a vendor to research economic development opportunities in the city and recruit retail businesses. In addition, in March 2022, we reported the city's assertion that it had engaged with stakeholders in a formal economic development effort. These actions led us to conclude that the city had fully addressed this risk area. Subsequent to that conclusion, in December 2022, the State announced its plan to close the Chuckawalla Valley State Prison, which is located in Blythe. Originally planned to close in March 2025, the prison officially closed in November 2024.

The city commissioned a June 2023 study of the economic and fiscal impact of the prison closure, which estimates that the full effect of the closure on the city's general fund revenue will be a reduction of $1.9 million, or about 12 percent, annually. The study also found that the prison supported 13 percent of the total jobs held by Blythe residents and 22 percent of the city's total wages. The study determined that the prison closure will raise the unemployment rate, considerably reduce average household incomes, and put pressure on local business, which will experience losses of both sales and profits. Figure 4 shows that the city's general fund revenue exceeded expenditures during fiscal years 2020–21 through 2022–23, indicating that the city can absorb some loss in revenue. Nonetheless, the actual effect of the prison closure remains unknown, and the city will need to be careful to avoid relying on other funding to sustain operations at their present levels.

A recent study by a consultant hired by Riverside County, where Blythe is located, could provide the city with a roadmap for economic development and thereby a path towards financial sustainability in the wake of the prison closure. In early 2024, this consultant presented an overview of the results of an economic development study of the Blythe region. The study included several action steps that could stimulate economic growth in the area, such as making infrastructure investments and encouraging and attracting private investment in the area. For example, the study suggested attracting tourism and capitalizing on Blythe's location along a regional highway system, the I-10 corridor, by investing in charging infrastructure for

Figure 4
The City of Blythe's General Fund Revenue Has Consistently Exceeded Its Expenditures



Source: Blythe's ACFRs.

Note: We calculated revenue by combining the revenue and transfers into the general fund in each fiscal year. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year. The city did not have other financing sources or uses flowing in or out of its general fund in these three fiscal years.

electric vehicles. The study also recommended pursuing grant opportunities to help fund this type of infrastructure, and Blythe has already sought such grants. The city received a federal grant award of $19.6 million for the development of a publicly accessible, multi-class, electric vehicle charging facility. The interim city manager believes that renewable energy, along with tourism and distribution centers will be key in Blythe's recovery from the prison closure. According to the interim city manager, Riverside County will organize a work group of stakeholders at the start of 2025 to implement the economic development study's action items. She stated that the city hopes to have these investments made in the community over the next three to five years, assuming that funding is available.

Finally, the city will also benefit from the remaining ARPA funding it has yet to spend. The city received a cumulative total of $4.7 million in ARPA funding and, according to the city's reporting to the federal government, the city had about $3 million of that funding still left to spend on general government activities as of the end of March 2024. The funding will be available to the city until December 2026, when federal regulations require the city to return any obligated but unspent funds.

HIGH-RISK AREA #3
Lack of a Long-Term Plan

Status: We conclude that Blythe has not addressed this risk area because the city has not yet developed a long-term strategic plan.

In our March 2021 audit, we recommended that the city develop a five-year strategic plan to ensure that Blythe was adequately prepared to address long-term financial, budgetary, and operational challenges. As part of that audit, we observed that a strategic plan would provide a framework for Blythe city officials to consider the city's numerous competing priorities when allocating any additional revenue it received. Consequently, we reviewed whether the city had addressed this recommendation. The interim city manager explained that the city has not done so because it has devoted resources to other priorities, such as opposing the Chuckawalla Valley State Prison closure. Moving forward, she stated that city staff will ask the city council to approve funding for a strategic plan as part of Blythe's fiscal year 2025–26 budget. The interim city manager estimated adoption of a strategic plan by early 2026 if the city council approves the funding.

HIGH-RISK AREA #4
Enterprise Fund Deficits

Status: We conclude that Blythe has partially addressed this risk area because the city's enterprise funds no longer owe significant amounts to other city funds. Although the city's enterprise funds continue to have negative unrestricted net positions, the city's recent rate increases reduce the risk that the water fund will strain the city's general fund.

In our March 2021 audit, we reported that Blythe had subsidized its solid waste, golf course, and lighting district enterprise funds with other city funds. We reported that the city recorded these enterprise fund subsidies as *loans* that cumulatively amounted to more than $1.5 million. During this audit, we reviewed the city's fiscal year 2022–23 ACFR and found that the city's enterprise funds subsequently owe minimal amounts to other city funds, which resolves the condition that we found in our original audit. Specifically, the golf course and lighting district funds did not owe any amounts to other funds, and the solid waste enterprise fund owed only $101,000 to the general fund.

Although the city's enterprise funds no longer incur those significant obligations, the enterprise funds continue to be a risk area for the city. The independent auditor's reports for the ACFRs from fiscal years 2019–20 through 2022–23 have each noted significant doubt about the city's ability to continue as a going concern—which means the city is at risk of not being able to continue meeting its financial obligations. Each of these auditor opinions notes that the negative unrestricted net position of the city's enterprise funds is one of the reasons for the significant doubt. At the close of fiscal year 2022–23, the unrestricted net position of the water, solid waste, and golf course funds were all negative, as they have been for the last few fiscal years, as Table 2 shows. A fund's unrestricted net position represents the resources a government entity can use at its discretion to address a variety of costs, such as unexpected revenue shortfalls or infrastructure needs. Therefore, a fund with a negative unrestricted net position is less able to address those costs on its own and is at greater risk of needing assistance from other sources, such as a city's general fund.

Table 2
The Unrestricted Net Position of Three Enterprise Funds at Blythe Has Remained Negative Over Four Fiscal Years

	TOTAL UNRESTRICTED NET POSITION (ENDING BALANCE)		
FISCAL YEAR	WATER FUND	SOLID WASTE FUND	GOLF COURSE FUND
2019–20	$(1,728,000)	$(624,000)	$(2,300,000)
2020–21	(1,568,000)	(586,000)	(1,280,000)
2021–22	(1,883,000)	(602,000)	(26)
2022–23	(1,500,000)	(337,000)	(27)

Source: Blythe's ACFRs.

Although it is significant that the independent auditor reported substantial doubt about the city's ability to continue as a going concern, Blythe is on a path toward better financial health in its enterprise funds. The city's finance director believes that the city will be able to address in the near future the independent auditor's concerns about the enterprise funds. In February 2023 the city council approved water rate increases that began in March 2023 and are scheduled to continue through January 2027. For example, at the time the council approved the rate increase, a single-family home paid about $2.20 per 1,000 gallons of water, but that rate will increase to about $4 in January 2027. As Table 2 shows, the water fund had the largest unrestricted net position deficit among the city's enterprise funds as of the close of fiscal year 2022–23. The city's finance director expects that the independent auditor will continue to express doubt about the city's ability to continue as a going concern because of unresolved deficit balances for the city's fiscal year 2023–24 ACFR, which has yet to be issued. Nevertheless, the overall increases in rate revenue over the next few years will help offset a potentially worsening position.

HIGH-RISK AREA #5
Unpaid Golf Course Loan

Status: In May 2021, we concluded that Blythe had fully addressed this risk area by paying off its golf course loan.

In our March 2021 audit, we found that the city owed more than $1 million for a loan that its former redevelopment agency had made to the city's golf course fund. We recommended that the city adopt a payment schedule to pay down the loan. We reported in our May 2021 follow-up assessment that Blythe had paid the remaining balance of its golf course loan to the redevelopment agency's successor, which fully addressed this risk area.

HIGH-RISK AREA #6
Need for Public Safety Resources

Status: In September 2022, we concluded that Blythe had fully addressed this risk area by obtaining consulting services for its police department and by developing a plan to replace its fire vehicles.

In our March 2021 audit, we recommended that the city apply for consulting services from the Commission on Peace Officer Standards and Training (POST) to better assess its police department's efficiency and effectiveness. POST accepted the city's application for an organizational study in September 2021 and subsequently completed the study in November 2022. The interim city manager explained that the Blythe police department has implemented many changes in response to the POST study. For example, the city updated its public safety communication system, which now provides direct communication between the Riverside County system and the city to improve communications and coordination in case of multi-jurisdictional incidents. In addition, the city developed a schedule for replacing its three oldest fire vehicles by the end of 2025. In the nearly four years since our March 2021 audit, the city has purchased one fire engine, one rescue truck, and two pickup trucks. The fire engine and rescue truck replaced two of the three oldest vehicles.

HIGH-RISK AREA #7
Unaddressed Vacant Buildings

Status: In September 2022, we concluded that Blythe had fully addressed this risk area by removing abated properties.

In our September 2022 follow-up assessment, we concluded that the city had addressed this risk area, and we noted that addressing vacant buildings would be a long-term effort. In addition, we reported that the city had identified properties that might be eligible for receivership—a legal designation that would allow the city to take control of certain aspects of the properties and bring buildings on that property up to code instead of demolishing them.

During this audit, we found that the city continues its efforts to address the risks associated with its vacancy rate. In May 2023 and February 2024, the city completed the removal of abated properties damaged by fires. Regarding the properties the city had previously identified for receivership, the interim city manager indicated that the city must address ongoing legal issues before proceeding with any further steps.

HIGH-RISK AREA #8
Utility Rates and Service Fees Insufficient to Cover Costs

Status: In March 2022, we concluded that Blythe had fully addressed this risk area by establishing a policy to annually review and update its service user fees.

In our March 2022 follow-up assessment, we reported that the city had fully addressed this risk area. In January 2022, the city established a policy that allowed it to annually review and update its user fees and required Blythe to perform a rate study every five years. The city commissioned a consulting firm to perform a water and sewer rate study. The study analyzed the revenue sources and costs of the city's utility system and proposed rate adjustments for full cost recovery. In February 2023, following a public hearing, the Blythe city council approved the water and sewer rate increases that the study proposed.

HIGH-RISK AREA #9
Poor Oversight of City Contracts

Status: We conclude that the city has partially addressed this risk area by creating and using a contract tracking spreadsheet to better monitor its contracts. However, the city still has not implemented procedures for closing out its expired contracts, and it has not updated its financial management software.

In our March 2021 audit, we found that Blythe's financial system did not link contract-related payments to their corresponding contracts, hindering the city's ability to ensure that those payments are appropriate. The city relied on a manual process to issue contract payments, and that process did not always ensure prompt payment. We concluded that without a method to ensure that it can properly manage its contractual obligations, Blythe risked paying wasteful and avoidable late fees. Further, we found that the city did not have a way to determine which contracts were valid and active. We noted that without a reliable method of identifying and tracking contracts, the city risked making payments on expired contracts and missing opportunities to renegotiate contract terms or budget appropriately for multiyear expenditures. To ensure that it can properly manage its contracts, we recommended that Blythe develop a contract tracking system that would include the ability to identify contract amounts, durations, and any relevant special terms. We also recommended that the city develop procedures to close out expired contracts and clearly identify in its financial system the contract authority for a contract-related purchase. As we note in our March 2021 audit, effective contract management practices at the end of a contract include reallocating unused funds and documenting information regarding the contractor's performance to ensure that the city does not enter into another contract with an entity that performed poorly and that the city does not make payments on an expired contract.

In our September 2022 assessment of the city's progress, we reported that the city had partially addressed this risk area. Our assessment reported that the city developed a contract tracking spreadsheet that identified the total contract amounts, contract dates and durations, and relevant special contract terms. The contract tracking spreadsheet procedures specify that the director of finance or a designee shall review and update the spreadsheet at least monthly. However, our assessment also found that the city had not implemented procedures to close out its expired contracts. We reported the city's assertion that its current financial system did not have the ability to monitor contracts in the way we recommended. Subsequently, in January 2023, the interim city manager stated that the city planned to ensure that when it purchased new financial management software that the software would include a contract management module.

During this audit, we confirmed that the city continues to use the contract tracking spreadsheet to log the contract amounts, dates and durations, and special terms. Relevant to our other recommendation, the interim city manager reaffirmed that the city plans to procure a new financial management system once its existing system is no longer supported, which she expects will occur after 2026. She also confirmed that the city still has not developed procedures for closing out expired contracts. Therefore, the city should continue with its plan to procure a software solution that would allow it to monitor contracts and also develop procedures that would better guard it against the potential negative effects of not properly closing out a contract.

HIGH-RISK AREA #10
Lack of a Permanent City Manager

> *Status: We conclude that Blythe has not addressed this risk area because the city has not yet hired a permanent city manager.*

In our March 2021 audit, we recommended that the city begin the process for hiring a permanent city manager. At the time, the interim city manager had been in the role since July 2017 after the previous city manager resigned. Further, we found that in addition to performing the duties of the city manager, she was responsible for the role of the city clerk and for several other important positions within the city. We concluded that hiring a permanent city manager would not only remove some of the work burden from the current interim city manager, but doing so would also allow Blythe to more effectively plan its next steps for improving its financial stability and its ability to continue providing service to residents in the long term.

Blythe has yet to hire a permanent city manager, instead relying on the same interim city manager to fulfill the position that she had been responsible for during our 2021 audit. In addition, she still maintains her elected position as the city clerk. The interim city manager stated that the city council may revisit the subject of hiring a permanent city manager after the November 2024 election. However, she also noted that the city does not have a formal timeline for when the hiring process will begin.

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The City of Lindsay's Negative Reserve Level and Deficits in Key Enterprise Funds Are Factors Resulting in Its Continued Designation as a High-Risk Entity

	RISK AREAS AS REPORTED IN AUGUST 2021	STATE AUDITOR'S CURRENT ASSESSMENT OF LINDSAY'S PROGRESS IN ADDRESSING THE RISK AREA*
	Lindsay's Actions Raise Doubt About the Financial Stability of Its General Fund	
1	Inadequate revenue led to illegal transfers to the general fund	Pending
2	Potentially improper contributions to the city's streets maintenance efforts	Partially Addressed
3	Insufficient planning for federal assistance funds	Fully Addressed
	Lindsay Must Increase Its Efforts to Address Deficits in Its Enterprise Funds	
4	Inadequate enterprise fund balances	Partially Addressed
5	Service fees did not cover costs	Partially Addressed
	Lindsay Must Improve Its Management Practices to Effectively Plan for Its Financial and Operational Needs	
6	No long-range financial planning	Partially Addressed
7	No formal strategies to address its rising employee retirement costs	Pending
8	Lack of planning for public safety training and equipment needs	Fully Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

Pending: The city has not taken substantial action to address the risk area and, at the time of this audit, the conditions that created high risk for the city continue to exist.

HIGH-RISK AREA #1
Inadequate Revenue Led to Illegal Transfers to the General Fund

Status: We conclude that Lindsay has not addressed this risk area. Although the city has implemented a plan to eventually repay transfers to its general fund, the city has depleted its general fund, leaving Lindsay poorly situated to handle unexpected economic conditions.

In our August 2021 audit, we found that the city forgave $6.3 million in loans made by several funds, including its water and sewer funds, to its general fund—an action that violated state law and exposed the city to litigation. Specifically, we observed that state law, as amended by Proposition 218, restricts cities from using revenue derived from property related fees and charges to pay for general government operations, and the city's forgiveness effectively converted those restricted funds into general funds, violating state law. We recommended that the city develop and implement a plan to repay fully these funds.

During this audit, we found that Lindsay's city council reinstated the loans, and approved an interest free repayment plan in February 2022. The plan calls for annual payments of up to $136,000. Further, the plan describes that the city will first reimburse $1.8 million to the water fund and $2.1 million to the sewer fund, which the city anticipates will take until fiscal years 2049–50 and 2054–55 respectively. The city then plans to reimburse the other affected funds including the street improvement fund. The city began its repayments in fiscal year 2022–23, and it anticipates completing full repayment to all funds in fiscal year 2090–91, a period that does not violate state law.

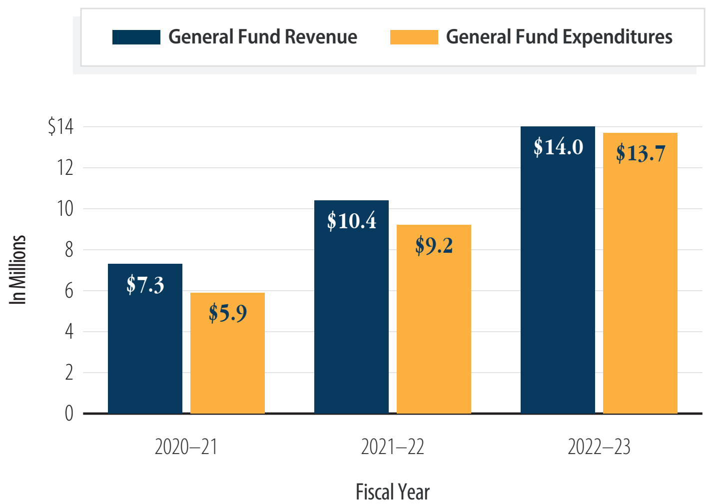
As Figure 5 shows, the city spent less than its general fund revenue in fiscal years 2020–21 through 2022–23. Although the city's revenue is sufficient to cover expenditures, its negative general fund reserves of $1.4 million as of the end of fiscal year 2022–23 will hinder its ability to react to current and future financial risks. Fiscal year 2022–23 was the second fiscal year in a row in which the city ended the year with negative general fund reserves. The GFOA recommends that government entities maintain at a minimum two months of unrestricted reserves to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. Consequently, the city will have to identify additional sources of revenue or reduce its expenditures to ensure its financial stability. To help identify potential revenue sources, the city's financial plan, which we describe in more detail below, has strategies Lindsay should continue to pursue to derive more revenue through economic development and to ensure that its enterprise funds do not require general fund subsidies.

HIGH-RISK AREA #2
Potentially Improper Contributions to the City's Streets Maintenance Efforts

> *Status: We conclude that Lindsay has partially addressed this risk area by conducting a cost study identifying the impact of water and sewer damage to roadway conditions.*

In our August 2021 audit, we noted that the city charges its utilities for the cost of street repair and maintenance that result from damage by those utilities. For example, the utility's water lines run underneath city streets and may cause damage through leaks or projects to replace or repair the water lines. However, we found that the city did not know the true annual cost of the damage its water, sewer, and refuse utilities caused to its roadways. Therefore, we concluded that the city violated Proposition 218 when it transferred nearly $900,000 annually from those utilities' funds to the city's general fund to pay for that roadway damage because it could not demonstrate how it knew that was the appropriate amount to transfer. The city

Figure 5
The City of Lindsay's General Fund Revenues Were Higher Than Its Expenditures in Three Recent Fiscal Years



Source: Lindsay's ACFRs.

Note: We calculated revenue by combining the revenue and other financing sources into the general fund each fiscal year with the exception of $900,000 in one-time proceeds from the disposal of capital assets in fiscal year 2022–23. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year.

received the results of a cost study in June 2022 that determined the cost of roadway damage that the city could attribute to the utilities to be a collective $688,000 annually. The consultant's report noted that the estimated cost of the damage was conservative, because it included only certain types of damage caused by the utilities.

Lindsay's director of finance stated that the city has not updated the amount it transfers from the utility funds since it received the cost study in 2022. The director started in her position with the city in 2024 and did not know why the city had not yet adjusted the transfer amounts. The director of finance anticipates that the city will revise the transfer amounts in January 2025. She further asserted that the city would review the transfer amounts every five years. Until it adjusts the amount it transfers for street repairs, the city continues to expose itself to liability under Proposition 218.

Recommendation to Address This Risk Area:

The city should update the amount that it transfers to the general fund to reflect the amount supported by its cost study.

HIGH-RISK AREA #3
Insufficient Planning for Federal Assistance Funds

Status: We conclude that Lindsay has fully addressed this risk area by developing a plan for spending its federal funds.

In our August 2021 audit, we raised concerns that Lindsay had not yet specifically planned how it would spend ARPA funding, and we recommended that the city develop a plan for effectively using those funds. As we describe in the Introduction, the city received $3.2 million in ARPA funds. In April 2022, Lindsay's city council approved a spending plan for the ARPA funds. That plan largely reserved the city's ARPA funds for future projects that the city would determine at a later date. However, in the April 2022 spending plan, the city indicated that it planned to spend funding on downtown beautification, economic development, and two fire department personnel. According to federal regulations, these are allowable uses of ARPA funds. As of March 2024, the city reported having spent $1.3 million of its ARPA award.

HIGH-RISK AREA #4
Inadequate Enterprise Fund Balances

Status: We conclude that Lindsay has partially addressed this risk area by developing a plan to build and maintain its fund balances, but risks remain for its water fund.

In our August 2021 audit, we noted that Lindsay's annual deficits and loan forgiveness had led to concerning deficit balances in two of the city's enterprise funds—the water and sewer funds. We recommended that the city develop and implement a plan to build and maintain these balances.

In June 2022, the city adopted a fiscal sustainability and financial improvement plan for the water and sewer funds that included provisions for outlining infrastructure replacement schedules, projecting cash flows and fiscal forecasts, and establishing contingency reserve policies for the water and sewer funds. Further, because the city reinstated the loans we describe under High-Risk Area #1, the unrestricted net position of the water fund is no longer negative. Nonetheless, the net position of the water fund depends significantly on the repayment of approximately $1.8 million as of the end of fiscal year 2022–23, which the city does not expect to fully repay until fiscal year 2049–50.

A more direct measurement of the financial health of the city's enterprise funds is whether they can sustain themselves or require subsidies. As Table 3 shows, the city's water fund has incurred operating deficits in fiscal years 2020–21 through 2022–23, and the sewer fund has been self-sustaining. The city approved water rate increases in October 2024, and those increases will go into effect over the next four to five years, with the first of the increases to take effect in January 2025. Establishing appropriate rates will assist the city in effectively operating its water utility.

Table 3
The City of Lindsay's Water Fund Operates at a Loss, but Its Sewer Fund Is Self Sustaining

	WATER FUND		SEWER FUND	
FISCAL YEAR	NET OPERATING INCOME (LOSS)	GENERAL FUND TRANSFERS IN	NET OPERATING INCOME	GENERAL FUND TRANSFERS IN
2020–21	$(233,000)	—	$353,000	—
2021–22	(252,000)	$99,000	382,000	—
2022–23	(569,000)	897,000	262,000	—

Source: Lindsay's ACFRs.
Note: All amounts are rounded to the nearest thousand dollars.

HIGH-RISK AREA #5
Service Fees Did Not Cover Costs

Status: We conclude that Lindsay has partially addressed this risk area. It developed a fee study and improved its accounting system, but it must address other weaknesses in its cash receipt processing.

In our August 2021 audit, we raised concerns that because it did not periodically review and update its fees and rates, Lindsay had not ensured that it collected sufficient revenue to cover the costs of services it provided. Further, we noted that limitations in its accounting system made the city unable to identify the precise amount of revenue it collects from some of its fees and rates. Although the city addressed the issues we identified in our prior report, we identified other issues during this audit that raise concerns.

In December 2022, the city council adopted a new citywide fee schedule to set city fees at the same level as the full cost the city incurred to support the various activities for which it charged user fees, such as issuing plumbing or electrical permits. The city council also approved an amendment to the fee schedule in July 2024. City staff proposed that amendment to increase certain fees they had either listed incorrectly or had left out of the schedule of fee increases the city approved in December 2022. We also confirmed that the city's accounting system has the capacity to track the revenue it collects from the fees it charges and that the city has established revenue accounts in that system for many of its fees.

However, as part of this audit, we identified other factors related to the city's fees and rates that demonstrate that this area remains a risk to Lindsay. The city's external auditor identified internal control weaknesses in its fiscal year 2022–23 audit. Specifically, for one city department's fees, a single individual handled deposits of fee revenue and did so without preparing proper supporting documentation. Deposits that do not include supporting documentation leave a city at risk of misappropriation of funds. Further, city staff did not reconcile cash receipts from two departments to the city's general ledger, which leaves Lindsay susceptible to the potential for misappropriation of fee revenue. Without proper controls over its cash receipt processes, the city cannot ensure that it is correctly collecting and recording its actual fee revenues, and it increases its risk that it does not handle collected cash properly. The city's director of finance stated that the city plans to centralize the fee collection process to better control fee collection and to better assure the city that its staff appropriately handle all fee revenue.

Recommendation to Address This Risk Area:

The city should adopt appropriate controls to address the internal control weaknesses regarding fee revenue its external auditor noted.

HIGH-RISK AREA #6
No Long-Range Financial Planning

Status: We conclude that Lindsay has partially addressed this risk area. It has developed a financial improvement plan, but it has not kept up with the financial forecasting requirements of that plan.

In our August 2021 audit, we raised concerns that, although Lindsay had taken some steps to improve its financial position in the short term, the city had no clear plan for its long-term financial decision-making. We noted that the GFOA recommended that all governments regularly engage in long-term financial planning as part of their overall strategic planning efforts, and that long-term financial planning should include key elements, such as revenue and expenditure forecasts, strategies for achieving and maintaining financial stability, and a process for periodically reviewing and updating that plan. In this audit, we determined that Lindsay has partially addressed this risk area. In February 2022, the city council approved a Fiscal Sustainability and Financial Administration Improvement Plan (financial improvement plan). The financial improvement plan established that the city would create annual five-year long-range fiscal forecasts, identify challenges to the city's continued financial health, and take steps to reduce expenditures or increase revenues when the city is projecting a deficit. The financial improvement plan also included an initial five-year forecast of the condition of the city's general fund.

Because the financial improvement plan calls for the city to perform the five-year long-range fiscal forecast annually, we expected at the time of our audit that the city would have already conducted two additional forecasts beyond the initial version included in the February 2022 financial improvement plan. However, the director of finance confirmed that the city has not performed any updates to its long-range financial forecast. She said that the city intends to include updated forecasts in future city budgets. As we describe earlier, at the end of fiscal year 2022–23, Lindsay had negative general fund reserves. The city would likely benefit from following through with its long-range financial forecasting so that it can better anticipate its revenue and expenditures and take steps as necessary to improve its poor financial condition.

HIGH-RISK AREA #7
No Formal Strategies to Address Its Rising Employee Retirement Costs

Status: We conclude that Lindsay has not addressed this risk area. The city still needs to develop and implement strategies to reduce its retiree health benefit costs.

In our August 2021 audit, we raised concerns that Lindsay had not prefunded its OPEB liabilities as the GFOA recommends. Lindsay's OPEB benefits include continuing medical, dental, and vision coverage to its qualified retired employees. Further, we stated that the lack of prefunding had caused the city's OPEB liabilities to increase by 36 percent from fiscal years 2017–18 through 2019–20. In addition, we noted that the city's pension costs could place a financial burden on the city unless it took substantial action.

The city's financial improvement plan includes a commitment to fully fund the costs of the city's retirement plans and hold annual discussions of the city's progress in funding its pension program. Related to OPEB, Lindsay's ACFRs show an overall decline in its OPEB liability, from nearly $2 million at the end of fiscal year 2021–22 to $1.4 million at the end of fiscal year 2022–23. However, a significant factor in this decline were changes in the assumptions the city made to estimate the OPEB liability, rather than any change in the city's approach to funding OPEB. Similar to the condition at the time of our original audit, the city had not prefunded its OPEB in fiscal year 2022–23.

The director of finance explained that the city would develop a plan by June 2025 to help reduce its OPEB liabilities. She noted that she would work with the city manager to look into the city's options to reduce its OPEB costs. Among the options the city would consider will be establishing an OPEB trust to prefund its OPEB liabilities and negotiating with the unions in preparation for the next bargaining agreement to consider requiring current employees to begin contributing to the future costs of their retirement health care benefits, among other strategies. As we described in our August 2021 audit report, if the city does not require its employees to begin contributing to their OPEB, Lindsay will likely have to make higher contributions from its general fund, displacing other spending priorities.

HIGH-RISK AREA #8
Lack of Planning for Public Safety Training and Equipment Needs

Status: We conclude that Lindsay has fully addressed this risk area. It has evaluated the effectiveness of its combined police and fire department, ensured that its firefighters have appropriate training, and adopted a fleet management and replacement policy covering its police and fire vehicles.

In our August 2021 audit, we raised concerns that Lindsay did not appear to be committed to the public safety approach it used at the time—a combined fire and police department—and that it needed to evaluate whether that approach was still an appropriate model for providing services to its community. We further identified concerns related to the city's public safety training, noting that although Lindsay generally hired trained police officers and then provided them with training in firefighting, the city had not ensured that two officers had received firefighting training. Finally, we noted that the age of Lindsay's police and fire vehicles could affect the safety of Lindsay's residents should those vehicles break down while responding to an emergency.

Lindsay evaluated the effectiveness of using combined police and fire functions, and in February 2022 presented a reorganization proposal to the city council. In March 2022, the city began its reorganization to create a single public safety department operated with separate functions for both police and fire. The city calculated the fiscal impact of the personnel elements of this change to be between $88,000 and $112,000 in additional costs annually. To support these additional costs, the city expected to use ARPA funds to pay for the first year's costs and use general fund monies to pay for costs in the second and following years. The city indicated that it would seek grant funding as it became available. The city further requires annual mandatory training for its firefighters, and it has established checklists to show that its firefighters and volunteers have met their annual training requirements. The city also established tracking documents that it can use to track whether its staff have demonstrated the knowledge, skills, and abilities related to their assigned duties. Accordingly, we find that the city addressed our recommendation regarding its public safety approach and training.

In addition, the city adopted a fleet management and replacement policy in November 2021, which establishes, among other things, guidelines for replacing all city vehicles. The city included factors for consideration such as the vehicle's age and mileage, its reliability and useful life, and the cost of maintenance and repairs. We note that Lindsay is currently monitoring the status of its public safety vehicles. For example, in its September 2024 annual fleet management and replacement evaluation, the city identified eight vehicles in its fleet that qualify for priority replacement and another two that qualify for replacement as the city's budget allows. The director of finance stated that the city no longer needs two of the vehicles identified as priority replacements and plans to replace two others during fiscal year 2024–25. She explained further that the city's chief of public safety had identified which two vehicles from the eight listed as priority replacements are in the greatest need of immediate replacement. The director of finance said that, beginning in fiscal year 2025–26, the city plans to replace three additional vehicles and begin budgeting to replace other vehicles as needed in the future.

The City of Montebello Has Not Kept Its Costs Below Its Revenue and Thus Remains a High-Risk Entity

RISK AREAS AS REPORTED IN OCTOBER 2021		STATE AUDITOR'S CURRENT ASSESSMENT OF MONTEBELLO'S PROGRESS IN ADDRESSING THE RISK AREA*
Despite Progress in Some Areas, Montebello's Financial Stability Remains Uncertain		
1	Declining financial situation	Pending
Montebello Continues to Make Questionable Decisions Related to Its Hotels		
2	Did not provide analysis of hotel performance	Fully Addressed
3	Did not include an important financial decision on the council agenda	Fully Addressed
4	Did not adopt a policy to timely pay hotel management fees	Fully Addressed
Montebello Has Not Fully Resolved Problems With Its Procurement Process		
5	Did not follow competitive bidding process	Partially Addressed
6	Did not follow petty cash and credit card policies	Fully Addressed
7	Made gifts of public funds	Partially Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

Pending: The city has not taken substantial action to address the risk area and, at the time of this audit, the conditions that created high risk for the city continue to exist.

HIGH-RISK AREA #1
Declining Financial Situation

Status: We conclude that Montebello has not yet addressed this risk area because the city has continued deficit spending in its general fund.

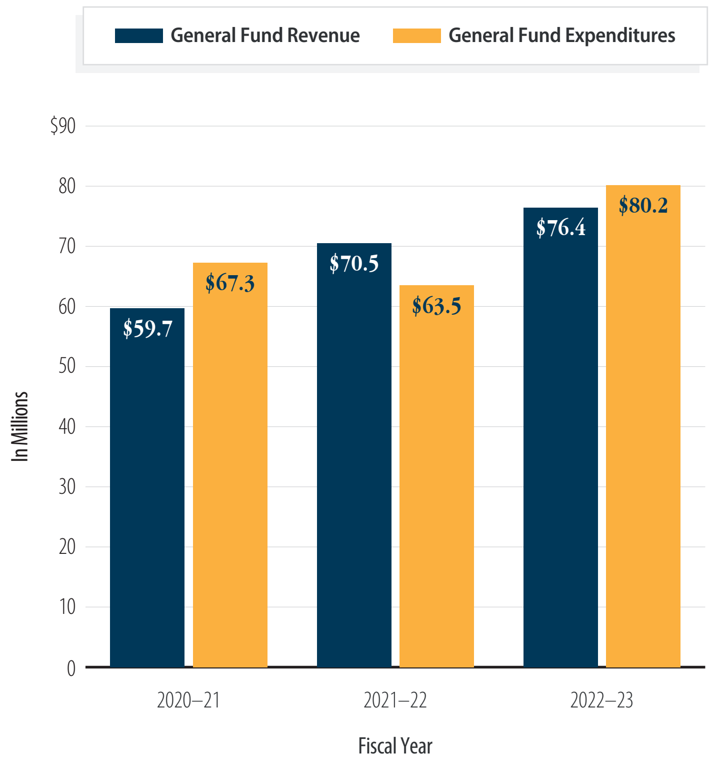
In our December 2018 audit, we found that the city struggled to generate sufficient recurring revenue to meet its expenditures. Our October 2021 follow-up audit found that the city's finances improved slightly following our 2018 audit, but they declined dramatically in fiscal year 2019–20, in part because of the economic repercussions of the COVID-19 pandemic. We reported that Montebello's lower revenue and higher expenditures depleted its general fund reserves, thereby limiting its ability to respond to further revenue declines or expenditure growth while still maintaining services.

In the years since our follow-up audit, the city has built its general fund reserves through one-time infusions of funding. According to the city's fiscal year 2022–23 ACFR, Montebello had amassed a general fund reserve of $25.3 million by the end of that fiscal year, an amount that could cover nearly four months of that year's expenditures. The city's general fund reserves grew significantly between fiscal years 2021–22 and 2022–23—increasing by nearly $15 million. The increase in the city's general fund reserves primarily resulted from selling its water system to the San Gabriel Valley Water Company for $16.2 million in February 2023, as we recommended it consider in our original audit. However, this condition is similar to the findings from our December 2018 audit of Montebello, which concluded that the city relied on one-time revenue to preserve and grow its general fund reserves. Although the city has made progress in building its general fund reserves, it will not be in a sustainable financial position unless it is able to avoid consistent deficits in its general fund.

Montebello has generally been unable to maintain general fund expenditures below the amount of its revenues. As Figure 6 shows, for fiscal years 2020–21 through 2022–23, there were two years in which the city's expenditures and transfers out of its general fund exceeded general fund revenue and transfers into the fund. The surpluses and deficits during this period ranged from a $7 million surplus in fiscal year 2021–22 to a $7.6 million deficit in fiscal year 2020–21, and the cumulative deficit in the general fund was $4.4 million. The director of finance shared with us that some of the expenditures in the city's general fund during this period were expenditures of bond revenue from bonds that the city's former redevelopment agency had issued. According to the director of finance, the city made the decision to record revenue from these bonds in the general fund before his tenure as director of finance. He believed that these expenditures—cumulatively $2.5 million during that period—were not reflective of the city's true ongoing costs in the general fund because they were one-time expenditures for restricted purposes. We reviewed the information the director of finance provided about these expenditures and found that, even after excluding those expenditures, the city still experienced deficits during two of the three fiscal years we reviewed and incurred an overall cumulative deficit. In other words, although accounting for these expenditures reduces the magnitude of the city's deficits, our overall concern remains that the city has not kept general fund expenditures below its revenues.

Further, according to the projections in the city's fiscal year 2024–25 budget, Montebello anticipates that beginning in fiscal year 2025–26, it will enter a three-year period of budget deficits of more than $1 million annually in its general fund. The director of finance stated that the city will use these projections to adjust current fiscal year expenditures, pursue opportunities to expand the city's sales tax base, and review the organization as a whole in order to identify opportunities for cost savings or revenue enhancements. However, he also shared his belief that the city would eventually realize more revenue than these forecasts assumed. Specifically, he highlighted that the budget states that the city's forecast does not include significant changes to sales tax revenue, which the city expects will occur in fiscal year 2024–25. The director of finance stated that the city did not include or did not fully realize large revenue-generating operations in the forecasted revenue because of the timing of

Figure 6
The City of Montebello's General Fund Expenditures Have Generally Been Higher Than Its Revenue in Two of Three Recent Fiscal Years



Source: Montebello's ACFRs.

Note: We calculated revenue by combining the revenue and transfers into the general fund in each fiscal year. This figure does not include other financing sources flowing into the general fund in the amount of $5.8 million in fiscal year 2020–21, $44,000 in 2021–22, and $1.3 million in 2022–23 that were related to the issuance of debt and the sale of assets. In addition, for fiscal year 2022–23, we excluded the $16.3 million transfer into the general fund because this was a one-time transfer that resulted from the city closing the water fund after the sale of the city's water system. We calculated expenditures by combining the expenditures and transfers out of the general fund in each fiscal year.

when the city developed the forecast. He explained that, in part, the forecast includes a conservative estimate of sales tax revenue, noting that the city did not have enough data from a recently opened entertainment venue at the time to more accurately project the growth of its sales tax revenue in future years. Nonetheless, Montebello has consistently overspent its general fund revenue and must show sustained progress in controlling costs to fully address this risk area.

Recommendation to Address This Risk Area:

To ensure that the city is able to sustain its general fund without relying on one-time events, Montebello should adopt a financial plan with specific strategies to reduce its expenditures and build and maintain its revenue.

HIGH-RISK AREA #2
Did Not Provide Analysis of Hotel Performance

Status: We conclude that Montebello has fully addressed this risk area by providing detailed financial updates about hotel operations to the city council.

In our October 2021 audit, we describe that Montebello owns two hotels—the Hilton Garden Inn and the Home2Suites Hotel—both of which are operated by a third-party we refer to as the *hotel operator*. Our 2021 follow-up audit found that since our December 2018 audit, city staff presented a financial analysis of only one of these two hotels to the city council, and it did so just once in nearly three years. Without detailed financial information—which could include the hotels' total revenue, expenses, and the amount due to pay for related debt—the city council has only limited ability to make informed financial decisions to protect the city's interests. We determined that the city council is at risk of not detecting underperformance, errors, or misstatements in the hotels' finances and that it cannot protect Montebello's interests when it considers matters related to its contracts for hotel operations. In our May 2022 follow-up assessment, we noted that staff were still presenting incomplete and inconsistent financial information to the city council.

Montebello has now provided more consistent and complete financial presentations to the city council. For example, in its first quarter budget report during fiscal year 2022–23, city staff presented that quarter's revenue and expenses for both hotels and compared them with the actual revenue and expenses from the first quarter of each of the previous three fiscal years. We saw similar levels of detail in subsequent updates to the city council. These details provide transparency for hotel operations and allow the city council to more readily identify underperformance. Because the city has regularly provided detailed reports on hotel operations to the city council, Montebello has fully addressed this risk area.

HIGH-RISK AREA #3
Did Not Include an Important Financial Decision on the Council Agenda

Status: In May 2022, we concluded that Montebello had fully addressed this risk area by implementing our recommendation to include all matters of fiscal policy on its public city council meeting agendas.

Our October 2021 follow-up audit found that the city council approved a loan of up to $3.4 million from its general fund for hotel renovations without properly including the issue on a council agenda. We recommended that the city council ensure that it includes all matters of fiscal policy on its council meeting agenda as state law requires. In May 2022, we reported that the city implemented our recommendation, and city council meeting agendas we reviewed during this audit show that the city has included matters of fiscal policy on council agendas.

HIGH-RISK AREA #4
Did Not Adopt a Policy to Timely Pay Hotel Management Fees

Status: We conclude that Montebello has fully addressed this risk area because it has adopted a policy to pay its hotel fees on time and has recently paid those fees on time.

In our December 2018 audit, we found that because Montebello did not pay its hotel management fees, the city had accrued $2 million in interest costs by the end of fiscal year 2016–17. In our October 2021 follow-up audit, we determined that the city was working to pay off its remaining management fee obligations, but Montebello had not developed policies to ensure prompt payment.

Following our October 2021 audit, the city created a policy related to timely payment of its hotel management fees. Further, trial balance reports from the city's financial system as of June 2024 show that the city had no accrued unpaid interest for either hotel. According to a spreadsheet the city uses to track the payments it owes, only one payment remained outstanding as of June 2024 in the amount of $384,000. According to the director of finance, the city will pay this amount when the hotel's revenue account has sufficient funding. In recent years, the city has paid the fees for this hotel several months late without accruing interest. Further, the city has improved the timeliness of its payments since our original audit and follow-up audit in 2021. Therefore, we consider this risk area fully addressed.

HIGH-RISK AREA #5
Did Not Follow Competitive Bidding Process

Status: We conclude that Montebello has partially addressed this risk area by updating its municipal code to require city council approval for exceptions to the competitive bidding process, but the city can do more to improve its safeguards for procurement.

In our December 2018 audit, we found that Montebello had not sought competitive bids for certain contracts and that a former city manager had approved a contract that exceeded her approval authority. Further, our October 2021 follow-up audit found that the city was not following requirements for contracting for services and would have benefited from increased city council oversight of its procurement activity. For example, we determined that Montebello violated its municipal code by not soliciting formal bids for a large professional services contract related to its golf course. To ensure that it obtains the best value when procuring services, we recommended that Montebello create a policy requiring staff to document when a valid exception—as described in the city's municipal code—exists to the procurement process and report the rationale for using the exception to the city council in a public meeting.

In January 2023, the city updated its municipal code, which addressed this risk by requiring city staff submit to the city council for approval a written justification for any exception to the procurement process. We reviewed examples of these notifications in two city council meeting minutes and found that the city staff had presented their rationale for using an exception when the city contracted for services outside of the standard process. In both instances, the city council authorized the exceptions.

However, Montebello has not adopted a policy addressing contracts without a maximum value. In both our 2018 and 2021 audits, we noted that Montebello needed a policy that addressed agreements without maximum values. We noted instances in both audits in which the city had entered into agreements with no maximum value, which provide fewer safeguards against overspending than contracts that include not-to-exceed values. In 2021 we recommended that the city establish a policy that requires contracts to include a maximum value when feasible and the city council to review and approve any agreement that binds the city financially and that does not include a maximum value. In March 2024, the city informed us that it had not implemented this recommendation, and the city's director of finance confirmed during this audit that the city has still not adopted such a policy. He indicated that his preference would be for the city to amend its municipal code to address this issue.

Finally, because of our findings in 2018 related to the city not consistently using competitive bidding processes to ensure that it received the best value for services, we recommended that the city provide annual training on procurement requirements for all staff involved in the procurement process. In 2021 we found that the city had not provided the procurement training as we recommended.

Since our October 2021 follow-up audit, the city has conducted procurement training and has taken steps to improve its training program. In February 2023, the city developed a policy for procurement training but, according to the city's director of finance, the city manager never approved the policy. The city's director of finance explained that the city manager at the time was on leave and the assistant city manager assumed his duties. The director of finance stated that because of this transition at the city manager level, the acting city manager never officially approved the policy. Montebello's current city manager approved the policy in October 2024. The policy describes the minimum topics covered in the training, such as the municipal code language and policies and procedures governing purchasing and procurement. The policy specifies the job classifications required to attend at least one training annually, and it requires the city to conduct three training events per year.

Before the recent approval of this training policy, the city had provided procurement training to its staff, but it could not present evidence showing that it ensured that all employees involved in procurement attended the training events. As it implements the new policy, it will be important for Montebello to track compliance with the policy. The city tracks attendance at training events by scanning and saving the paper sign-in sheets, but it does not enter the attendance information into any electronic tracking system or searchable document. Although the sign-in sheets provide records of who attended the training events, they do not allow the city to easily determine whether the necessary employees attended at least one training during a 12-month period, challenging the city's ability to monitor compliance with the new policy's requirements. The director of finance indicated that he is open to implementing an electronic tracking system to make it easier to determine who did or did not attend training events.

Recommendation to Address This Risk Area:

To help ensure that city staff are properly trained in competitive bidding processes and other procurement activity, the city should monitor adherence to the new procurement training policy.

HIGH-RISK AREA #6
Did Not Follow Petty Cash and Credit Card Policies

Status: In May 2022, we concluded that Montebello had fully addressed this risk area by generally eliminating the use of petty cash, issuing credit cards to individual employees instead of departments, and strengthening its purchasing controls.

In our May 2022 assessment, we reported that the city had fully addressed this risk area by implementing all of our recommendations regarding its use of credit cards and petty cash. Our December 2018 audit found that Montebello's poor control over its petty cash and its lack of credit card policies increased the risk of fraud and abuse. Although the city implemented petty cash and credit card policies after that audit, our 2021 follow-up audit determined that Montebello's staff members had not consistently followed them. In our May 2022 assessment, we noted that the city stated that it had eliminated all petty cash drawers with the exception of a single drawer overseen by its finance department. In addition, the city eliminated departmental credit cards and instead issues credit cards to individual employees. Montebello set individual transaction limits for each cardholder. The city also established a credit card policy that prohibits splitting a purchase into multiple transactions to circumvent the transaction limits and requires city manager approval for transactions that exceed the approved transaction limits. The result of implementing our recommendations is that the city has strengthened its purchasing controls and reduced the risk of abuse and fraud.

HIGH-RISK AREA #7
Made Gifts of Public Funds

Status: We conclude that Montebello has partially addressed this risk area by updating its municipal code to prohibit gifts of public funds, but the city has not ensured that its employees receive ethics training that addresses the prohibitions on gifts of public funds.

Our October 2021 follow-up audit found that Montebello's senior management circumvented the city's credit card policies when it used multiple transactions to purchase gift cards and mugs to show its appreciation of its employees during the holiday season—purchases that we considered to have constituted gifts of public funds. To help prevent such occurrences in the future, we recommended that the city revise its municipal code to prohibit the purchases of employee gifts with public funds. In February 2022, the city revised its municipal code accordingly. We also recommended that the city obtain for the city council and all employees with purchasing authority periodic legal and ethics training regarding the appropriate use of public funds and the prohibition on such funds to make gifts. The city manager stated that the city has not yet required legal and ethics training, but he intends to hire an independent entity to conduct the training. Further, he noted that he will implement a formal requirement that all staff complete their ethics training every two years and a process to monitor their completion.

The City of West Covina Remains a High-Risk Entity Because Its Approach to Addressing Its Reserve Level Increases Its Risk for Future Financial Instability

RISK AREAS AS REPORTED IN DECEMBER 2020		STATE AUDITOR'S CURRENT ASSESSMENT OF WEST COVINA'S PROGRESS IN ADDRESSING THE RISK AREA*
West Covina's Ineffective Fiscal Management Threatens Its Ability to Meet Its Financial Obligations and to Provide City Services		
1	Continual diminishing of reserves	Partially Addressed
2	Questionable use of city resources	Partially Addressed
3	Financial decisions based on insufficient analyses	Fully Addressed
4	Lack of formal financial recovery plan	Fully Addressed
West Covina's Weak Enforcement of Its Procurement Policy Increases the Risk of Waste and Fraud		
5	Inadequate management of purchase cards	Fully Addressed
6	Lack of oversight to ensure that contracts provide best value	Partially Addressed

* In accordance with state law, we used our professional judgment to assess the city's progress in each of the risk areas in the table. We determined whether the steps the city took and the overall conditions relevant to each risk area meant that the city fully or partially addressed the risk areas, or whether substantial action relevant to the risk area was still pending. We explain the statuses identified in this table in more detail below.

Fully addressed: The city has taken sufficient action to address the risk area when we consider its effort in combination with the related conditions at the time of this audit.

Partially addressed: The city has taken positive action to address the risk area, but its effort is incomplete when we consider it in combination with the related conditions at the time of this audit.

HIGH-RISK AREA #1
Continual Diminishing of Reserves

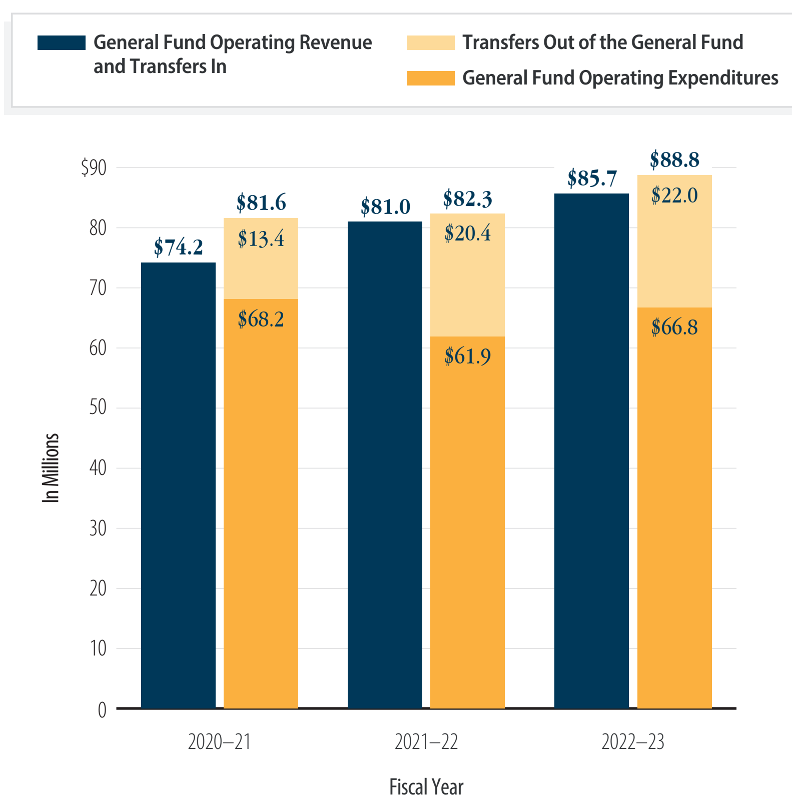
Status: We conclude that West Covina has partially addressed this risk area. Although the city's general fund revenue is higher than its operational expenditures, the city has chosen to maintain the minimum recommended reserve level, which introduces higher risk it will not be able to address future financial needs.

In our December 2020 audit, we reported that West Covina had diminished its general fund reserve by operating with a *structural deficit*, a condition in which operating expenditures exceeded revenue. We reported that the city's general fund reserves had declined, leaving the city vulnerable to unexpected expenditures or reductions in anticipated revenue, which jeopardized the city's ability to meet its financial obligations without reducing services.

Since our original audit in December 2020, West Covina has grown its general fund reserves from $12.6 million in fiscal year 2019–20 to $17.7 million as of the end of fiscal year 2022–23, which equals roughly two and a half months of general fund expenditures. The GFOA recommends that government entities maintain unrestricted fund balances in their general funds of no less than two months of reserves. West Covina's general fund reserves were above that minimum standard at the end of fiscal year 2022–23.

In addition, the city no longer operates with a structural deficit. Instead, the city's general fund revenue exceeds its operating expenditures. Figure 7 shows the city's revenue, which includes the transfers the city made into its general fund, as well as operating expenditures and transfers the city made out of the general fund from fiscal years 2020–21 through 2022–23. Because the amount the city transfers out of its general fund causes the funding flowing out of the general fund to exceed the funding flowing in, we inquired further with the city about how it was managing its resources.

Figure 7
The City of West Covina Has Maintained Its Operating Expenditures Below Its Operating Revenue



Source: West Covina's ACFRs.

Note: We calculated revenue by combining the revenue and transfers into the general fund in each fiscal year but did not include $185.6 million in transfers into the general fund related to the city's pension bonds in fiscal year 2020–21. The city did not have other financing sources or uses flowing in or out of its general fund in these three fiscal years.

The city explained that it is managing the general fund according to its reserve policy, which states that the city will maintain a reserve of no less than 17 percent of its annual operating expenditures, equating to a two-month threshold. In fiscal years 2020–21 through 2022–23, because the city's general fund reserves were above the two-month threshold, the city made certain transfers out of its general fund. During those years, the city calculated the level of general fund reserves its policy required it to maintain and transferred most of the remaining difference in general fund revenue to other city funds. These other funds include a fund related to the city's OPEB costs and another fund accounting for capital projects. These transfers were discretionary as the city's policy on reserves allows the city council to override them. Although the city also made other transfers that were not discretionary, its general fund reserves would have grown by the end of fiscal year 2022–23 if the city had not made the discretionary transfers.

The city's approach to managing its general fund reserves is riskier than if it focused on building a higher reserve amount. Although the city's reserve policy aligns with the GFOA's fund balance guidelines, the GFOA also identifies that a government's particular situation may require a reserve balance significantly in excess of this recommended minimum level. West Covina's pension related debt may represent such a situation. The city's net pension liability and pension-related debt equaled nearly 200 percent of government-wide revenue for fiscal year 2022–23. When a city's pension obligations and debt reach levels that equal such high percentages of its overall revenue, the city is at high risk for obligations and debt payments supplanting other priorities or goals that the city needs to or wants to accomplish. The city's pension debt represents a significant risk to the stability of the city's general fund, which should prompt West Covina to consider establishing a general fund reserve target at a level above its current policy to better mitigate this risk.

Recommendation to Address This Risk Area:

West Covina should establish a general fund reserve level higher than its current 17 percent goal that is sufficient to mitigate current and future risks, including its pension-related debt.

HIGH-RISK AREA #2
Questionable Use of City Resources

Status: We conclude that West Covina has partially addressed this risk area. The city has not renegotiated its labor agreements with its employee unions as we recommended, but it has updated its fee schedule.

In our December 2020 audit, we raised concerns about city leadership's decisions regarding the use of city resources because we concluded that those decisions had significantly reduced the city's financial reserves. Specifically, we focused on the decisions the city had made to fund its employees' health benefits at rates well above the average for state and local governments. West Covina paid 95 percent of its employees' healthcare premiums, compared to the 86 percent and 75 percent rates, on average, that state and local governments in the region paid for employee-only and family plans respectively. As of fiscal year 2022–23, the city's contribution rates to employee health benefits remained at 95 percent, demonstrating that the city is still incurring unusually high costs for healthcare. The finance director stated that the city has not yet renegotiated its agreements with its employee unions to alter how much it contributes to health benefits. The finance director also stated that West Covina is in the process of renegotiating those agreements and that the city hopes to complete its negotiations before the end of December 2024.

In December 2020, we also expressed concern about the fact that the city had not raised service fees to levels that would fully cover the city's costs to provide services such as building permits and inspections. West Covina has now addressed that concern. The city's August 2023 cost of service study calculated the full cost of city services and identified new fees for services the city had been providing without charging a fee. In December 2023, the city adopted an updated fee schedule with the amount the city planned to charge for specific services.

HIGH-RISK AREA #3
Financial Decisions Based on Insufficient Analyses

Status: We conclude that West Covina has fully addressed this risk area. The city has improved its processes for providing financial information to its city council and has developed long-range financial forecasts.

In our December 2020 audit, we noted that West Covina did not always provide complete information to the city council when it requested approval for budgetary or organizational changes. For example, we noted an instance in which the city council approved salary increases for firefighters based on the city fire chief's assertion that the increases would save money in the long term, but the fire chief did not present a documented analysis to support this assertion. We also raised concerns that West Covina lacked a process for developing financial projections of its planned expenditures and anticipated revenue for the following years.

West Covina has taken steps to ensure that it considers the financial impact of its decisions. The city has developed a financial evaluation template that provides a guide for evaluating both the short and long-term impacts of major revenue and expenditure decisions, and it has incorporated the template into its city council proposals for agenda actions. Further, West Covina has begun to regularly produce long-range financial forecasts. For each of its last three budgets, the city has produced a corresponding long-range financial forecast. The forecasts include projected general fund revenues and expenditures, and they identify assumptions the city used for projecting growth in its revenues and expenditures.

HIGH-RISK AREA #4
Lack of Formal Financial Recovery Plan

Status: In January 2022, we determined that West Covina had fully addressed this risk area by developing and implementing a financial recovery plan.

In our December 2020 audit, we concluded that West Covina had not developed a comprehensive financial recovery plan to improve its long-term financial health. In January 2022, we determined that West Covina had fully addressed this risk area. West Covina developed a financial recovery plan that included corrective action objectives, steps to achieve those objectives, expected completion dates for those steps, the lead and support staff responsible for accomplishing each of the steps, and the status of its progress toward accomplishing its objectives. The city's finance director has submitted updates of this plan to the city's audit committee—the members of which are a combination of city representatives and members of the general public—ensuring that the city is able to track its progress and be held accountable to its objectives by the public.

HIGH-RISK AREA #5
Inadequate Management of Purchase Cards

Status: We conclude that West Covina has fully addressed this risk area by strengthening its purchase card policy.

In our December 2020 audit, we found that West Covina had inadequately managed components of its purchase card policy. In particular, we determined that the city did not have sufficient documentation showing that managers had authorized temporary increases to the amount that individuals were allowed to charge in a single purchase card transaction. We raised concerns that the lack of documentation could be indicative of systemic issues that, if left unaddressed, could result in increased risk of excessive expenditures or potential fraud.

The city's July 2022 purchasing manual includes provisions covering employees' use of purchase cards, including the process for requesting single-transaction limit increases. We reviewed examples of completed single-transaction limit increase requests, which document the individual's current transaction limit and the temporary transaction increase amount. The examples document the duration for the temporary increase and the reason for the request. Because of its recent implementation of policies and practices, the city has addressed this risk area.

HIGH-RISK AREA #6
Lack of Oversight to Ensure That Contracts Provide Best Value

Status: We conclude that West Covina has partially addressed this risk area. The city has addressed some but not all of our concerns regarding its contracting practices.

In our December 2020 audit, we found that West Covina had violated its competitive bidding requirements by contracting with a consulting firm because of a recommendation from the human resources director rather than comparing bids. We also raised concerns about repeated amendments the city had made to a waste collection contract. That contract provided to the city annual recurring payments of $300,000 from the waste collection company. It also included terms that we determined may not be in the best interest of the city or its residents, such as the contract's built-in extensions that annually reset the period of the agreement to 25 years. To address this risk area, we recommended that the city adopt policies clarifying when contract amendments are appropriate, adopt a policy requiring the city to document its rationale for contract periods longer than five years, and negotiate with the waste collection vendor for more favorable terms.

In response to our recommendations, the city has established policies clarifying the appropriate use of contract amendments. In particular, West Covina's June 2022 update to its ordinances identifies circumstances under which the city manager may amend purchase orders or contracts. However, according to its finance director, West Covina has not amended its contracting policies to include a requirement that city management document reasons for entering into any contract or extension with a duration in excess of five years. The finance director stated that, by July 2025, the city will develop such a policy. Finally, the finance director stated that West Covina has not taken steps to address issues we identified related to the questionable terms in the waste collection contract. She indicated that the city's commercial and residential rates under the contract were in line with rates from surrounding cities, as the city noted in a February 2022 staff report to the city council, and that it was in the city's best interest to keep the terms of the contract in order to maintain the annual recurring payments that the city receives from its waste collection provider. City staff presented a similar analysis to the city council again in May 2023 as part of ongoing negotiations with its waste collection vendor about a contract amendment. In light of its regular comparison to the waste collection rates paid by surrounding cities, we are no longer concerned about this element of this risk area.

We conducted this audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code section 8543 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

GRANT PARKS
California State Auditor

December 19, 2024

Staff:	Bob Harris, Audit Principal Ralph M. Flynn, Senior Auditor Richard Power, MBA, MPP Savanna Rowe
Legal Counsel:	Richard B. Weisberg

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Appendix

Scope and Methodology

Government Code section 8546.10(e) requires that the California State Auditor issue a report on high-risk local government entities every three years, unless we have removed them from the high-risk program. For this audit, we reviewed the cities of Blythe, El Cerrito, Lindsay, Lynwood, Montebello, San Gabriel, and West Covina. Our prior audits of these cities identified areas of high risk related to the cities' financial condition, financial stability, and oversight of city contracts, among other issues. The table lists the resulting audit objective and related procedures that address these high-risk areas. Unless otherwise stated in the table or elsewhere in the report, statements and conclusions about items selected for review should not be projected to the population.

Audit Objective and the Methods Used to Address It

	AUDIT OBJECTIVE	METHOD
1	Evaluate the cities of Blythe, El Cerrito, Lindsay, Lynwood, Montebello, San Gabriel, and West Covina to determine the extent to which each city has addressed prior audit recommendations, assess trends in the city's financial condition, and determine whether we should continue to designate any of these cities as high-risk local government agencies.	• Evaluated each city's progress toward addressing the risk areas we identified in our prior audits and the recommendations associated with those risk areas. The analysis of the cities' efforts to address these risk areas and recommendations included a review of the specific documentation relevant to each risk area and recommendation. These steps included a review of city policies and procedures, tracking spreadsheets, budgets and financial information, contracts and contract management practices, among other information and documents as we describe in more specific detail throughout this report. • Interviewed city officials and staff to inquire about specific actions taken to address the risk areas and recommendations. To the extent possible, substantiated assertions by analyzing the documentation and information referenced above. • Reviewed the cities' audited financial statements to determine and assess trends in their financial conditions, including their general fund balances, revenues and expenditures, and, when relevant, other major fund balances. At the time of our audit, the most recently available audited financial statements for each city were for fiscal year 2022–23. • Determined whether the cities had taken satisfactory corrective action in addressing their areas of high risk and concluded whether we should remove their high-risk designation. We drew our conclusions about each city's high-risk status from our assessment of the unique circumstances at each city and the relative importance of the high-risk areas that we identified during previous audits. We did not make our determinations based on a formula or standard number of high-risk areas that the cities needed to have demonstrated progress in addressing.

Source: Audit workpapers.

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THE CITY OF EL CERRITO
CITY MANAGER'S OFFICE

November 22, 2024

Grant Parks
California State Auditor
621 Capitol Mall, STE 1200
Sacramento, CA 95814

Dear State Auditor Parks:

The City of El Cerrito has reviewed the Draft Audit Report for Audit 2024-801, which is a follow-up to the original Audit Report 2020-803 issued to the City in March 2021. The City is pleased that the California State Auditor's office is removing the City of El Cerrito from the Local High Risk Program.

As your report stated, the City has made significant progress in addressing the identified risk areas, and we are committed to ensuring that the City continues to maintain fiscal discipline to sustain our financial health, particularly in the area of ongoing costs. We are resolved to continue to right-size the budget and consider additional strategies to ensure our long-term sustainability, including conducting a cost allocation and fee study and a service delivery study as indicated in the Audit Report. Engaging these studies will allow the City to objectively look at operational protocols and streamline processes while ensuring that services are equitable and costs are effectively recovered, and confirm that these risk areas remain addressed.

The City is extremely proud of our accomplishments that have addressed the identified risk areas and beyond. The remarkable turnaround in the City's financial position, completion of all the recommendations in the report, and removal from the Local High Risk Program in just three years is the result of a great deal of hard work on the part of the City Council, City staff, and community. We want to thank the State Auditor team and appreciate the opportunity that the audit and the Local High Risk Program presented the City to enhance and improve our policies and procedures and address our structural financial issues, which has ensured the City's fiscal sustainability and provides a bright future for El Cerrito.

Please feel free to contact me should you have any questions.

Respectfully,

Karen E. Pinkos

Karen E. Pinkos, ICMA-CM
City Manager
City of El Cerrito

cc: El Cerrito City Council

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Lindsay
All-America City

City of Lindsay

P.O. Box 369 - Lindsay, California 93247 - 251 Honolulu Street

Opportunity Zone

November 25, 2024

Grant Parks, State Auditor
State of California Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Subject: 2024-801- City of Lindsay Audit Report Findings Response

HIGH-RISK AREA #1

- City staff agree with this finding and are actively working to reduce expenditure by eliminating non-essential spending, while ensuring essential services are maintained. They are prioritizing needs, implementing a purchase order system for better oversight, and ensuring all purchases are vetted and approved prior to being made.

HIGH-RISK AREA #2

- City staff agree with this finding and secured City Council approval for the feasibility study conducted in 2022, further adopting the rate increases recommended within that study taking effect January 1, 2025. The city will no longer transfer funds exceeding the allowable rate specified in the 2022 study. Instead, the city will apply the rates outlined in the study, plus the cost-of-living adjustment (COLA) for each subsequent year and will continue monitoring these transactions to ensure compliance with Prop 218. The city is also committed to conducting regular cost reviews and completing a study every 5 years. Transfers for the current year have already been halted, and a "true up" will occur at year-end to ensure no over-transfers of funds.

HIGH-RISK AREA #3

- City staff agree that this issue has been resolved and will continue to develop plans for all funding sources as necessary.

HIGH-RISK AREA #4

- City staff agree with this finding and are confident that our water and sewer funds will be self-sustaining once they are implemented on January 1, 2025, as the rates have not increased in over 20 years. We anticipate a positive net result after the first year of implementation.

Additionally, the city is actively working on the wellness enterprise account by reducing costs while seeking to increase revenues and membership.

HIGH-RISE AREA #5

- City staff acknowledge this finding and are actively working to enhance financial systems that can track and generate real-time data reports, enabling more informed decision making. Internal controls have been lacking for quite some time, but the new administration is addressing all aspects of this area. The city is in the process of centralizing accounts payable and receivable functions to improve financial oversight. Additionally, a purchase order system is being implemented, which will require approval before purchases are made and will limit credit card usage.

HIGH-RISK AREA #6

- City staff agree with this finding and will implement an MYP budget during interim reporting, year-end reporting, and budget adoption. The MYP will include forecasts for the current year and the next two years, along with projections for two additional years based on the status quo of the second subsequent year.

HIGH-RISK AREA #7

- The city agrees that this needs to be reviewed and will explore options to prefund the ongoing retirement costs.

HIGH-RISK AREA #8

- City staff confirm that this issue has been resolved and will continue the implementation of our plans to secure funding for a vehicle replacement program.

Sincerely,

Lacy Meneses

Lacy Meneses
Director of Finance

City Manager's Office
Raul Alvarez City Manager

MONTEBELLO

November 25, 2024

Auditor of the State of California
ATTN: Grant Parks, California State Auditor*
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Mr. Parks:

The City of Montebello appreciates the opportunity to work with your office to showcase the significant positive progress the City has made since your office published its first audit in 2018. The City takes the recommendations from the State Auditor seriously and has worked to implement them in order to respond fully to the 2018 and 2021 audit reports. Moreover, Report 2024-801 highlights this progress by noting seven high-risk areas have been fully or partially addressed. (1) This progress is a testament to the City's commitment to improve internal controls and its overall financial status.

The City is pleased with the progress it has made since 2021 to resolve State Auditor recommendations. The City has fully addressed four areas of concern and has made significant progress in partially addressing two additional areas. We fully anticipate fully addressing these two areas by the conclusion of Fiscal Year 2024-25, if not sooner.

The City is committed to the path of improvement and recognizes there is concurrence with your office on recommendations contained in Report 2024-801. However, the City does dispute certain statements and representations of facts contained in this report. The following pages present our response to Report 2024-801.

"Despite Progress in Some Areas, Montebello's Financial Stability Remains Uncertain"
High Risk Area #1 – Declining Financial Situation

The City of Montebello has made tremendous, positive strides in addressing various State Audit areas of concern from the 2018 and 2021 audits – especially its financial situation. It takes effort to transform an organization the size and complexity of Montebello. Addressing the City's financial situation is a complex task that requires commitment across the entire organization to address.

This commitment began with implementing a formal budget development and adoption process, as well as introducing quarterly budget reviews. Moreover, a five-year budget development strategic plan was developed in an effort to address areas of financial

* California State Auditor's comments begin on page 77.

concern. It is important to note that over the past five years, management has had to address significant equipment, staffing and infrastructure needs that suffered from years of neglect: lack of sufficient staff across all departments, the need to adjust salaries and benefits to provide competitive wages to retain and attract the best and brightest, deferred maintenance of facilities, deteriorating equipment, outdated and unsafe vehicles, the list goes on.

If Montebello is to prosper and achieve financial stability, it is first necessary to invest in the organization. These investments in human and infrastructure capital come at a cost – but they are necessary investments in the organization. These investments have improved infrastructure by repairing streets and other City assets. The investments in human capital have allowed Montebello to add key personnel in public safety, economic development, code enforcement, street maintenance, community services, etc. These areas in turn provide the City with resources to beautify the City, attract new businesses, provide community services to residents, and to implement the essential programs needed and desired by both residents and businesses.

In reviewing Montebello's financial standing it is imperative to understand the necessity of expending resources in order to provide the City with the ability to achieve financial stability. It is also important to remember the City dealt with the social and economic impacts of the global pandemic. Montebello made a conscious choice to not reduce services or staffing during the pandemic – choosing instead to maintain service levels even if that meant utilizing reserves while revenue declined.

Management remains focused on its bottom line and achieving a lasting balance between ongoing revenues and expenditures is a fundamental goal. To that end, it is important to note some of the many positive improvements to General Fund revenue in the past four years which will ultimately resolve this high-risk area.

The passage of Measure H in March 2020 – a ¾ cent transaction and use tax – has provided $37.144 million in General Fund revenue between Fiscal Years 2020-21 and 2023-24, with a projected $10.250 million for FY 2024-25. As discussed above, this additional General Fund revenue has been used to make necessary investments in equipment, staffing, infrastructure, programs, and services.

2 Furthermore, the development of Metro Heights – a 1,200-unit residential development – has begun to provide additional property tax to the General Fund. Fiscal Year 2023-24

saw the first notable impacts to General Fund revenue from this housing development. The current fiscal year includes increased property tax revenue, fueled by Metro Heights as well as various other developments throughout the City. Metro Heights will generate additional economic benefits beyond increased General Fund revenue, as retail operators seek out Montebello as a desirable place to do business as new housing is added and new residents call Montebello home.

The recent approval of a General Plan update and Housing Element will further Montebello's ability to drive new development throughout the City in coming years. New housing and retail development will improve the City's sales and property tax bases, improving General Fund revenue performance for generations to come.

This context is important in order to better understand and appreciate the continuing efforts management is undertaking to ensure current and future financial stability. Measure H and new real estate development throughout the City have provided much needed resources for the City to continue improving its services. Granted, as noted in Report 2024-801, FY 2019-20 saw a use of General Fund reserves as expenditures out-paced revenues. But this "pandemic year" was an anomaly, and the City prides itself on having maintained services during this difficult time. With a precipitous drop in sales tax revenue in FY 2019-20, expenditures did exceed revenues – but City services were not negatively impacted.

Fiscal Year 2019-20 requires an "asterisk" when comparing ongoing revenue vs. ongoing expenditures. General Fund revenue dropped 12.0% from FY 2018-19 to FY 2019-20. The deleterious and lasting impacts of the pandemic on the City's General Fund revenue should not be overlooked.

Despite the negative impacts the pandemic had on the local economy, General Fund reserves increased to $28.468 million as of June 30, 2023. The point of reserves is to have funding for a "rainy day." The City did not have City Council adopted reserve policies until June 2020. It was not until FY 2022-23 that the City could begin implementing these policies – due to having total General Fund reserves of $28.468 million. The City (as of June 30, 2023) has commitments for "economic uncertainties" and "unfunded liabilities" as well as an assignment for "capital improvement."

The State Auditor should be applauding Montebello for having GASB 54 compliant reserve policies and implementing them as of June 30, 2023. Instead, Report 2024-801 3 appears to penalize the City for how its General Fund reserves grew.

The 2018 State Auditor report recommended the sale of the City's water system. Following through on this recommendation, the sale was completed in February 2023. The City realized $16.2 million in one-time General Fund revenue. It seems unfair that
③ Report 2024-801 acknowledges the water system sale as a State Auditor recommendation, but then dismisses its positive impact on General Fund reserves.

④ Furthermore, Report 2024-801 does not provide necessary analysis of the many one-time expenditures that have occurred in the past three fiscal years. These one-time expenditures are above and beyond the necessary investments in infrastructure and human capital noted above. Unfortunately, the City has had to pay out several large dollar legal settlements – which are paid by utilizing General Fund resources. There was no way to anticipate these settlement payments nor forecast their final impact on the General Fund. Had Report 2024-801 taken the time to better explore General Fund expenditures over the last three fiscal years, a more accurate picture of ongoing expenditures would have been presented by removing multi-million-dollar settlement agreement payments. These types of settlement payments are not uncommon to many municipalities, but with the direction and proper attention to these issues by the City's new management team, these circumstances should be reduced, if not eliminate such impacts and payments in the future.

The report also discusses the three-year financial forecast provided in the FY 2024-25 adopted budget book. While that initial financial forecast does project deficits in FY 2025-26 and beyond, it does not include anticipated revenue from current and pending retail operations. The report does state this fact, and the summary of feedback provided by
② staff is accurate. However, it is important to reflect on the recent changes discussed in the opening paragraphs above: a new source of sales tax that will exceed $10 million annually in FY 2024-25 coupled with additional property tax from Metro Heights and other new retail operations in the City.

The financial forecast model presented in the FY 2024-25 budget will be updated when new information is available from two new significant sales tax producing operations contributing revenue in FY 2024-25. Furthermore, that financial forecast model will be used to guide future budget discussions with management and City Council. The goal will be to utilize the forecast model as part of annual budget development, and to adjust expenditures as necessary to match on-going revenue forecasts.

<u>Recommendation</u>
Management feels strongly that this high-risk area would have been at least "partially addressed" had this report included additional analysis on one-time General Fund expenditures, as well as more fully recognized the impact the pandemic had on revenue. A more in-depth analysis by the State Auditor would have produced a more accurate assessment of the City's overall financial status. Furthermore, the City's General Fund reserves, at their highest amount in over ten years – regardless of how that was achieved – is a remarkable and positive achievement deserving of acknowledgment in this report. 5

Regardless, Management does agree that the recommendation made in Report 2024-801 to address this risk area is reasonable: "*To ensure that the city is able to sustain its general fund without relying on one-time events, Montebello should adopt a financial plan with specific strategies to reduces its expenses and build and maintain its revenue.*"

Management is committed to right-sizing the organization. Utilizing and fully implementing the already developed financial forecast model tool will allow the City to satisfy this recommendation. Management is confident that the combination of improved General Fund revenue and use of the financial forecast model in budget development will help the City achieve lasting financial stability.

High-Risk Area #5 – Did Not Follow Competitive Bidding Process

This high-risk area is listed as "partially addressed" in Report 2024-801. The State Auditor notes that the City's municipal code was updated in January 2023 to address when exceptions to the procurement process exist. Moreover, the report cites examples of how these exceptions are presented to the City Council in agenda reports. Staff have endeavored to be transparent in all areas of procurement and noting when exceptions to the standard procurement process are recommended is just one of myriad improvements made to the purchasing process over the past four years.

Report 2024-801 notes that a specific policy should be adopted that addresses agreements without maximum values. While agreements with no maximum values are rare, there are instances when approval of such an agreement is necessary. For example, there are some services where a vendor is paid based on a percentage of revenue collected (e.g., building plan check services). Staff will work to draft and implement a policy which addresses agreements without a maximum (i.e., "not-to-exceed") value and how they are presented for approval.

This high-risk area also addressed the need for purchasing training for City staff. The City has made tremendous, positive strides in providing training to staff involved in the purchasing process. Both the frequency and quality of this training have improved since 2021. Finance Department staff take the lead on preparing and presenting purchasing training to all department staff involved in any aspect of procurement. Not only are general trainings held, but Finance staff have conducted department specific trainings where needed and/or requested.

We feel the current method of tracking attendance at training is sufficient – requiring attendees to sign-in and then saving copies of the attendance sheets on an internal drive. However, the City is open to improving attendance tracking and will implement an electronic database to ensure all staff required (per policy) to attend training actually do attend training, as Report 2024-801 recommends.

High-Risk Area #7 – Made Gifts of Public Funds

6 The City has maintained its disagreement with the specific incident upon which this finding from 2021 was based. While the City disagrees that the provision of gift cards and coffee mugs – in-lieu of a citywide holiday party – was a "gift of public funds," it does agree that regular ethics training is a positive recommendation that should be implemented.

It must be noted that this particular recommendation would have been implemented had the State Auditor been more forthcoming with the exact type of training required. The original recommendation included in the 2021 report recommended legal and ethics
7 training *"from an entity that is independent from and not affiliated with the city or the city council, such as from the Attorney General's Office or the District Attorney's office…"* Staff worked with State Auditor staff throughout 2022 and 2023 to identify a training that would satisfy this specific recommendation. However, the City was not provided direction or recommendations for training that either of these two recommended entities could – or would -- provide.

7 Report 2024-801 removes the reference to the Attorney General and District Attorney as recommended agencies from which to obtain the ethics training. Discussions with State Auditor staff during the current (2024) audit process allowed the City to pursue ethics training from a prominent employment law firm that is well-regarded in the State of California. As of the publication of Report 2024-801, Staff is working to finalize an agreement with this law firm to begin providing regular ethics training to appointed and

elected officials. Staff are confident that this recommendation will be fully addressed within six months. Aside from the previous recommendation for City staff, it should be noted that AB 1234 ethics training has been completed by all elected officials and City Directors.

Conclusion

The City remains committed improving all facets of its operations. Furthermore, we are proud of the significant progress made across all "high-risk" areas noted in the 2018 and 2021 reports. Montebello's elected and appointed officials look forward to continuing these improvements and will provide the necessary updates as required by the State Auditor – as included in a forthcoming corrective action plan.

Once again, the City of Montebello thanks the Office of the State Auditor for your careful review and consideration to the comments provided in this letter. The undersigned are proud of the great strides achieved by the City since the last review, and we look forward to the continued cooperation and collaboration with your Office.

Sincerely,

Raul Alvarez
City Manager
City of Montebello

Michael Solorza
Director of Finance
City of Montebello

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CITY OF MONTEBELLO

To provide clarity and perspective, we are commenting on Montebello's response to our audit. The numbers below correspond to the numbers we have placed in the margin of its response.

Montebello misstates the number of risk areas that we determined it has fully or partially addressed. As page 47 shows, we determined that the city fully addressed four high-risk areas, partially addressed two other high-risk areas, and the city's progress in addressing another risk area is pending. ①

The city's response cites various factors, such as increases in sales tax and property tax revenue, occurring during a period that audited financial statements were not available at the time we conducted our audit. We look forward to reviewing information from these financial statements, when available, that Montebello can use to demonstrate its progress in addressing its risk areas. ②

The city's response refers to criteria that is not relevant to our audit's findings. Our analysis of the city's reserve was primarily accomplished by considering two factors: the relative size of the reserve and the means by which the city built its reserve. Governmental Accounting Standards Board Statement Number 54 does not establish criteria for assessing either of these factors. Further, the city incorrectly states that our report appears to penalize the city for the way it grew its reserves. On page 48, we report our concern that the city primarily relied on one-time revenue to grow its general fund reserves. That condition is similar to the condition we found during our 2018 audit. Relying on one-time revenue to build or maintain a general fund reserve is an unsustainable approach. As we state on page 48, the city will not be in a sustainable financial position unless it is able to avoid consistent deficits in its general fund. Moreover, we disagree with Montebello's characterization of how we describe the sale of its water system. On page 48, we recognize the positive impact that the sale had on the city's general fund reserves by reporting that the city's reserve grew by nearly $15 million between fiscal years 2021–22 and 2022–23, an increase we attribute to the sale of the water system and describe as *significant*. ③

During our audit, Montebello brought these expenditures to our attention, as well as other expenditures the city stated were one-time in nature, and we determined that it would be inappropriate to exclude them from our analysis. All of these costs pertained to city operations and should be accounted for as general fund expenditures that impacted the city's financial position. The city's description of its experience with these types of expenditures underscores why it is important for Montebello to maintain a sustainably healthy level of general fund reserves to mitigate current and future financial risks. ④

5 We stand by our assessment of Montebello's progress in addressing High-Risk Area #1. The comments we made above, specifically comments 3 and 4, explain our position on the city's objections to our review of its general fund reserves and general fund expenditures. Furthermore, we acknowledge on page 47 that our 2021 audit of the city reported that the pandemic affected revenues and expenditures of the city's general fund in the fiscal years addressed by that audit. Therefore, our assessment of the city's progress in addressing its financial condition is accurate.

6 We stand by the conclusion we reported in October 2021. As that audit report states, we believe that purchases the city made to provide gift cards and mugs to its employees constituted a gift of public funds. Although the city disputed our conclusion and stated that these purchases were not violations of the law, no evidence the city presented convinced us that we were incorrect in our conclusion.

7 Montebello inaccurately characterizes our office's involvement and role in its effort to implement a recommendation from the 2021 audit. First, the city implies that our office was not forthcoming with information about the type of training we recommended the city obtain. To the contrary, our recommendation specifically contained this information. That recommendation states that "*To ensure the city does not make gifts of public funds, the city should … obtain for the City Council and all employees authorized to make expenditures with city funds bi-annual legal and ethics training from an entity that is independent from and not affiliated with the city or the city council, such as from the Attorney General's Office or the District Attorney's Office, regarding the appropriate use of public funds and the prohibition on using public funds to make private gifts.*"

Secondly, Montebello implies that after the 2021 audit, we did not provide it with direction about specific legal and ethics training that the Attorney General's Office or District Attorney's Office could offer to the city. To be clear, our recommendation never precluded the city from obtaining training from another source that it deemed to be independent. Moreover, we believe it would be inappropriate for our office to choose a specific training course for the city. The audit standards we are required by state law to follow specify the need to avoid management participation threats, such as the preparation of an audited entity's corrective action plan. Consequently, we believe it is not our role to make decisions about the selection of training for city staff.

Finally, Montebello mischaracterizes that it was eventually able to move forward with implementing this recommendation only after we amended the phrasing of the recommendation. Although page 54 presents a summarized version of the recommendation that we made in our 2021 report, the recommendation remained unchanged. The city was always at liberty to procure ethics training from any independent source it felt was appropriate.

November 25, 2024

Grant Parks
California State Auditor
621 Capitol Mall, Ste. 1200
Sacramento, CA 95814

Subject: 2024-801—Confidential Draft Audit Report for Review

Dear Mr. Parks:

I have reviewed the draft report regarding the City's status in the Local High-Risk Program and acknowledge that the City remains a high-risk entity due to the State Auditor's assessment that the City's approach to addressing its reserve level increases its risk for future financial instability. Further, I understand that the City must submit a corrective action plan to your office no later than 60 days after the publication of the associated audit report.

If you have any questions, please contact Finance Director Stephanie Sikkema at ssikkema@westcovina.org or (626) 939-8463.

Sincerely,

Paulina Morales
City Manager

STAFF REPORT

TO: Lindsay City Council
MEETING DATE: February 25, 2025

Item #: 11.2
Action Items

DEPARTMENT: City Clerk

FROM: Maegan Peton, City Clerk and Assistant to the City Manager

AGENDA TITLE: Lindsay Economic Development Committee Member Selection

ACTION & RECOMMENDATION

Select two applicants to serve as Committee Members for the immediate vacancies on the Lindsay Economic Development Committee.

BACKGROUND | ANALYSIS

At the September 10, 2024, Council Meeting, the City Council adopted Resolution No. 24-31 formally establishing the Lindsay Economic Development Committee and approving the bylaws that will govern its operations. Additionally, on November 12, 2024, the committee bylaws were amended through the adoption of Resolution 24-39. This amendment expanded the residency requirement from within the City limits to the boundaries of the Lindsay Unified School District, in order to include residents who may reside within the City's sphere of influence.

The bylaws were most recently amended on February 11, 2025, through Resolution No. 25-04 to increase the number of members from five (5) to six (6) and the application period was opened.

The application period opened February 12, 2025, and ends February 25, 2025, at 5 p.m.

Staff recommends selecting two applicants to fill the immediate vacancies on the Lindsay Economic Development Committee.

FISCAL IMPACT

There is no fiscal impact directly associated with this action.

ATTACHMENTS

1. Member Applications

Reviewed/Approved:

From: Boards, Commissions, and Committees Application
To: Maegan Peton
Subject: Form submission from: Boards, Commissions, and Committees Application
Date: Thursday, December 5, 2024 3:43:57 PM

Submitted on Thursday, December 5, 2024 - 3:43pm

Submitted by anonymous user: 47.45.83.159

Submitted values are:

First Name Hipolito
Last Name Cerros

Phone Number [redacted]
Email [redacted]
Board, Commission, Committee Lindsay Economic Development Committee

Home Address [redacted]
Business Address (Required if you do not reside in City limits)
Please describe your education and work experience/training that you believe would be relevant in your role on the Committee (500 Max Words) I am a graduate from UC Davis with a major in Science and Technology Studies minors in management and political science. I also have a certificate in public policy from Harvard University. I have worked with State Senator Melissa Hurtado closely on economic development opportunities and I am an appointed board member by Governor Gavin Newsom. After serving 4 years on the Lindsay City Council, I am familiar with budgets, financial oversight, our local Municipal Code and General Plan, and projects

The results of this submission may be viewed at:

https://www.lindsay.ca.us/node/791/submission/776

From: Boards, Commissions, and Committees Application
To: Maegan Peton
Subject: Form submission from: Boards, Commissions, and Committees Application
Date: Thursday, December 19, 2024 2:43:48 PM

Submitted on Thursday, December 19, 2024 - 12:37pm

Submitted by anonymous user: 50.115.203.19

Submitted values are:

First Name ANITA
Last Name GUSTUSON

Phone Number [redacted]
Email [redacted]
Board, Commission, Committee Lindsay Economic Development Committee

Home Address [redacted]
Business Address (Required if you do not reside in City limits)
Please describe your education and work experience/training that you believe would be relevant in your role on the Committee (500 Max Words) I am excited to join the Economic Development Committee for the City of Lindsay. As a resident for over 30 years and with 25+ years of experience in procurement, finance, and city operations, I bring a solution-focused and resourceful approach to fostering economic growth and strategic planning. I have also sent a cover letter to mpeton@lindsay.ca.us

The results of this submission may be viewed at:

https://www.lindsay.ca.us/node/791/submission/780

Anita Gustuson
[redacted]
Lindsay, CA 93247
[redacted]

Dear Selection Committee:

I am excited about the opportunity to serve on the Economic Development Committee for the City of Lindsay. As a resident of Lindsay for over 30 years, with more than 25 years of experience in procurement and city operations, along with a background in finance and extensive involvement with the Lindsay Chamber of Commerce, I offer a solution-oriented, resourceful, and dependable approach to advancing economic growth and strategic planning.

My objective is to support Lindsay's growth and prosperity by leveraging my experience in procurement, communication, and strategic planning. Key responsibilities I've undertaken include:

- Building and maintaining communication with vendors, city departments, and the community.
- Researching resources and ensuring compliance with city regulations and policies.
- Identifying cost-saving strategies and evaluating opportunities for improvement.
- Managing records and contracts for community capital projects.
- Preparing reports and coordinating between city departments and vendors.
- Leading Lindsay Chamber of Commerce Main Street revitalization efforts to boost local business and enhance the downtown area.
- Implementing policies to promote economic development, community relations, and business sustainability.
- Coordinating community events to support local businesses and attract visitors.
- Serving as the primary point of contact for inquiries and providing referrals and resources.

Now retired from the City of Porterville Finance Department, I hold an Associate of Arts degree and a Paralegal certificate. I am also a proud graduate of the Leadership Lindsay class of 1993. Colleagues describe me as professional, resourceful, and committed to community service. I am eager to bring these qualities to the Economic Development Committee and work collaboratively to support Lindsay's growth and prosperity.

Regards,

Anita Gustuson

STAFF REPORT

TO: Lindsay City Council
MEETING DATE: February 25, 2025

Item #: 12.1
Discussion Items

DEPARTMENT: City Manager

FROM: Daymon Qualls, City Manager

AGENDA TITLE: Update on Development Projects and Water Infrastructure

ACTION & RECOMMENDATION

Receive updates on current City development projects and water infrastructure projects.

BACKGROUND | ANALYSIS

Water Infrastructure & Feasibility Study Update

- In 2023, the City completed a comprehensive water feasibility study to assess our current water infrastructure and identify necessary improvements to support new residential and commercial development. In 2024, a water capacity Addendum was issued to the feasibility study. This memo aims to concisely document the City's current state of water supply availability under present conditions and the feasibility of adding additional water users to the system from the perspective of water supply availability.

Well 11 & Future Water Treatment Facility:

- A key finding from the study is the importance of the planned water treatment facility for Well 11, which is scheduled to come online in 2026.
- This facility is central to our strategy for serving increased development in the City.

Ongoing RFP for Well 11 Inspection:

- The City has initiated an RFP process for a detailed inspection of Well 11.
- **Purpose:** The inspection aims to determine the current condition of Well 11.
- **Outcome:** Data collected from this inspection will be critical in informing a technical memo that outlines the City's capability to support new development. Once this project is completed and the inspection data is reviewed, staff will incorporate the findings into the technical memo. Staff will subsequently present the updated information to the City Council to better inform decision-making regarding water infrastructure and service capacity for upcoming development projects.

Conclusion

The City continues to make steady progress on multiple development projects while also addressing critical infrastructure needs. The forthcoming Well 11 inspection and acceptance of the water capacity technical memo are key steps in ensuring that our water supply system can support the anticipated growth in both residential and commercial sectors.

Development Projects Update

Below is an update on the status of current development projects within the City of Lindsay:

1. **Mission Estates – 90 Parcels**
   - *Status:* Final Subdivision Map approved in the mid-2000s.
   - *Next Steps:* The property owner has been in contact regarding resubmitting up-to-date Improvement plans.
   - *Action:* Pending Improvement plan submittal.
2. **Palm Terrace 3 – Tentative Subdivision Map (10 Parcels)**
   - *Status:* Palm Terrace III is proposing 10 single family dwellings.
   - *Stage:* Tentative Subdivision Map.

3. **1001 Fresno Street – 4 Parcels + Remainder**
    - *Status:* Proposed lot split includes 3 dual plex units and 1 triplex on the four parcels.
    - *Next Steps:* Awaiting final map resubmittal and currently working on the 5th Improvement Plan check.
4. **Travel Center – Tulare and Hwy 65**
    - *Status:* All submittals have been approved.
    - *Next Steps:* Awaiting permit payment for both onsite and offsite improvements.
5. **Lindsay Transit Center – Mt. Vernon and Hermosa**
    - *Stage:* RFQ Currently out for Architecture Design Services, due 3-6-25.
6. **O'Hara Subdivision – Phase 1 (48 Parcels; Total of 145 Parcels)**
    - *Status:* Phase 1 improvement plans, landscape designs, and Final Subdivision Map have been approved.
    - *Next Steps:* Pending update of the engineer's estimate and resolution of a storm drain issue.
7. **O'Hara Subdivision – Phase 2 (39 Parcels)**
    - *Status:* Phase 2 improvement plans have been approved.
    - *Next Steps:* Landscape plans and Final Subdivision Map are pending.
8. **Hidden Oaks – Tulare and Hwy 65 (50 Parcels)**
    - *Stage:* Tentative Subdivision Map, Conditional "Will-Serve" letter for water issued February 2025.
9. **Hermosa Subdivision – 137 Parcels**
    - *Stage:* Preliminary Site Plan Review was completed 06/26/24.
10. **Sierra Mini Storage – 1200 Units & Office**
    - *Stage:* In the Improvement stage.
11. **Clone Estates – 7 Parcels**
    - *Stage:* Tentative Subdivision Map in the review process.
12. **Westmore Senior Apartments – 40 Units**

    Stage: Site Plan Review is in process.
13. **1078 E. Tulare Rd. – 4 Units**
    - *Stage:* Site Plan Review is in process.
14. **232 S. Mirage Ave. – 3 Units**
    - *Stage:* Site Plan Review is in process.
15. **110 N. Westwood Ave. – 7 Units**
    - *Status:* All permits have been approved and issued.
    - *Next Steps:* Construction is underway, though a Certificate of Occupancy has not yet been issued.
16. **Living Water Lot Line Adjustment – Lot Merger**
    - *Stage:* Lot Line Adjustment is in process.
17. **Ordinance Amending Zoning Ordinance and Subdivision Ordinance to comply with State Housing Laws, etc. – Ordinance Text Amendment**
    - *Stage:* In process by staff and consultant. Will be brought to City Council in March.
18. **Regional Housing Element – General Plan Amendment**
    - *Stage:* In process by Rincon Consultants. Next submittal to HCD is expected at the end of March or early June.
19. **Rezone of properties back to Mixed Use from Light Industrial – Rezoning**

    Stage: Staff is ready to bring a City-initiated Rezone to City Council if desired.

FISCAL IMPACT
There is no fiscal impact associated with this action.

ATTACHMENTS
1. None.

Reviewed/Approved: ____