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California Legislature



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JOINT LEGISLATIVE AUDIT COMMITTEE AL MURATSUCHI, CHAIR

May 4, 2018

2018-110

BY MAIL AND FACSIMILE (916-645-8903)

Mathew Brower, City Manager
City of Lincoln
600 6th Street
Lincoln, CA 95648

Dear Mr. Brower:

The Joint Legislative Audit Committee has received the attached request for an audit of the City of Lincoln.

The members of the Committee will consider these audit requests in a hearing at the State Capitol on **Wednesday, May 16, 2018, at 9 a.m. in Room 126**. We request that you or a representative from your agency attend this hearing. Please confirm your attendance or provide the name of your designee to Tram Truong by phone, (916) 319-3300, or email, Tram.Truong@asm.ca.gov.

If you have any questions, please do not hesitate to contact committee staff at (916) 319-3300.

Sincerely,


AL MURATSUCHI
Assemblymember, 66th District

Enclosure

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California State Senate

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TED GAINES
FIRST SENATE DISTRICT



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TRANSPORTATION AND
HOUSING

April 11, 2018

Honorable Al Muratsuchi, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

APR 12 2018

2018-110

Dear Colleagues:

As a representative of the people of Placer County and the 1st Senate District, I am writing to respectfully request that the Joint Legislative Audit Committee (JLAC) conduct a complete audit and review of the administration of public funds and assets by the City of Lincoln.

The City of Lincoln's fiscal year budget for 2018 will exceed \$75 million. The City maintains a minimum of 47 separate funds. Recently, citizens challenged the City based on water rates and made some disturbing findings, leading to broader concerns over failure to comply with reporting requirements under state law, and a pattern showing poor internal controls and fund management abilities. This pattern could point to the potential for a "high-risk" City which, should it fail, the state may have to use its funds to bolster the City's budget.

In late 2016, the City of Lincoln was asked to disclose their financial records regarding their water systems, records they claim to have utilized to impose new water rates upon residential customers. The financials produced failed to meet the requirements imposed by Proposition 218 – there was no correlation between rates and costs. Attempts by taxpayers to come to accommodation with the City followed, ultimately the taxpayers were forced to file suit. The City, in a mediated settlement, agreed to refund rate fees back to the residential ratepayers.

Following their success with residential rates, the same citizen group asked the City what they were intending to do about commercial rates, which had not been included in the original award. The City Manager was not inclined to acknowledge a link to commercial ratepayers. The issue was brought to the City Council.

In March of 2018, the City Council reconsidered the city's actions after receiving additional information regarding the potential City liability.

The City Council voted 5-0 for an additional \$3 million in refunds back to January of 2014. This decision overturned the City Manager's position.

Total refunds currently due taxpayers for Proposition 218 non-compliance now stand at \$6 million, with an additional \$1 million for the time between the mediated settlement and when the new rates will go into effect.

In the meantime, in late December 2017, the ratepayer group stumbled onto the fact the City was using water for "free" (approx. \$1.0 million/year) for over 20 years through 113 City owned meters. There is strong evidence suggesting that senior staff and some City Council members had known about this water asset "juggling" for long period of time. The City had also gone so far as to falsify reports with the Department of Water Resources (DWR) in an attempt to cover up their presumed illegal usages.

While in discovery, citizens discovered apparent misuses of public funds. For instance, the City issued loans for rehabilitation in redevelopment areas, which were never repaid. Following the elimination of redevelopment agencies (RDAs), the City paid the successor fund's debt with monies from the Placer County Water Agency (where there was no nexus between water and rehabilitation). These payments that were not disclosed until a revised report was made to the state, five-years later.

A more disturbing event appears to have been when the City "charged-off" \$11 million in developer fees (a circumstance arising when developers do not build their intended project), though in this case the developers were allowed to proceed with their projects. This seems to be a clear gift of public funds.

It is with these facts, which show a distinct pattern of mismanagement among some at the upper echelons of City government in Lincoln, that I request JLAC and the state auditor engage in an audit review of the most recent five fiscal years of the City of Lincoln, to include the following reviews and determinations:

- Review the laws, regulations, rules, policies, and procedures and criteria the City of Lincoln uses in the deposit and collateralization of public funds.
- Determine whether the City of Lincoln clearly communicates the criteria for approving or denying an application or rate-change and whether the process is reasonably transparent.
- Determine if the City of Lincoln consistently complies with relevant laws, regulations, rules, policies, and guidelines regarding the used and distribution redevelopment funds and/or determine if the criteria and methods have been fair and reasonable.
- Determine whether the fees assessed to taxpayer/ratepayers for water use are sufficient to cover the actual costs of providing the service or if the city is currently, or has over the audit period been, collecting fees in excess of actual costs.
- Review annual audited financial statements and internal control reviews to determine whether any deficiencies were noted and whether the city has taken the recommended corrective actions.
- Determine if there are alternative organizational/administrative structures to administer public funding, or manage public assets, which may be more effective or efficient.
- Determine if the City of Lincoln management meets its fiduciary duties to the individual and commercial residents, and is trustworthy in promoting the general welfare of its residents.

- Determine if the City of Lincoln is in compliance with state mandated reporting requirements to both the public and state entities.
- Review both residential and commercial fee collection policies, internal controls and reporting.
- Review the use, and potential for abuse, of assets and taxpayer funds.
- Review all internal audit controls, budget management, and money transfers.
- Review and assess any other issues that are significant to the audit.

The state can ill-afford another municipal failure. I call upon the Joint Legislative Audit Committee and the State Auditor to conduct an audit of the City of Lincoln as outlined above to spare state taxpayers the cost associated with rescuing another municipality.

Thank you for your consideration of this audit request. Should you have any questions or need additional information, please do not hesitate to contact Peter Renevitz at 916-651-4001.

Sincerely,


Ted Gaines
Senator, First District

cc:

Richard Roth, Vice Chair
Senator, 31st District

Dante Acosta
Assemblymember, 38th District

Benjamin Allen
Senator, 26th District

Catharine Baker
Assemblymember, 16th District

Jim Beall
Senator, 15th District

Adrin Nazarian
Assemblymember, 46th District

Anthony Cannella
Senator, 12th District

Jay Obernolte
Assemblymember, 33rd District

Jean Fuller
Senator, 16th District

Blanca Rubio
Assemblymember, 48th District

Ricardo Lara
Senator, 33rd District

Jim Wood
Assemblymember, 2nd District