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CITY OF VACAVILLE

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 ESTABLISHED 1850

August 18, 2004

Honorable Peter B. Foor
 Presiding Judge
 Solano County Superior Court
 c/o Superior Court Executive Officer/Clerk
 Hall of Justice
 600 Union Avenue
 Fairfield, CA 94533

RE: RESPONSE TO 2003-2004 SOLANO COUNTY GRAND JURY FINAL REPORT

Dear Judge Foor:

The 2003-2004 Grand Jury report lists the City of Vacaville, along with the other cities in Solano County, as an *Affected Agency* with respect to certain *Findings and Recommendations* under the category of *Audit and Finance*. (More specifically, pages 8 and 9 of the Grand Jury Report.) I have reviewed the Grand Jury Report and offer the following responses:

Finding/Recommendation #1 – The Vacaville City Council has a policy of maintaining at least a 15% General Fund budget reserve. The Grand Jury recommends the reserve amount be set by City ordinance.

Response #1 – The City disagrees with the finding. The purpose of establishing a budgetary reserve is to allow sufficient time to react to any significant, unanticipated decline in revenues or increase in expenditures so as to avoid a disruption in the delivery of municipal services to the community. Through prudent financial management of the City over the past several decades, Vacaville has been able to achieve its goal of maintaining at least a 15% General Fund budget reserve; and, in many of those years, the reserve has been in excess of 20%.

The recommendation will not be implemented because we do not feel it is warranted. The City feels that codifying a General Fund budget reserve (percentage) in an ordinance would be going against the purpose of the reserve in the first place, which is to allow time to adjust to unforeseen budget emergencies. Reserves may have to be used to avoid a severe disruption in services or layoff of employees.

Finding/Recommendation #2 – The City's five-year budget projection shows a reduction in the General Fund reserve from 22% to 10.9%. The five-year plan allows the City adequate time to make necessary adjustments in order to maintain a reserve.

DEPARTMENTS: Area Code (707)

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Administrative Services 449-5101	City Attorney 449-5105	City Manager 449-5100	Community Development 449-5140	Community Services 449-5654	Fire 449-5452	Housing & Redevelopment 449-5660	Police 449-5200	Public Works 449-5170
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Response #2 – The City agrees with the finding and the recommendation has been implemented. The City Council has already taken action in January 2004 and June 2004 to keep General Fund spending in line with anticipated revenues and maintain the budget reserve above the desired 15% level. The current (2004-2005) General Fund budget includes a 20% operating reserve, and the updated forecast for 2005-2006 shows the reserve at 15%.

Finding/Recommendation #3 – Vacaville is faced with a \$2,000,000 PERS payment, which is not included in this year's budget or any future budget. There is a \$1,400,000 PERS reserve available. However, the City must determine how the \$600,000 shortfall will be resolved.

Response #3 – The City disagrees with the finding. The \$2,000,000 actually represents the increase in the City's retirement contributions (PERS) for the 2004-2005 fiscal year and does not pertain to the 2003-2004 fiscal year. The recommendation has been implemented in that the PERS payments have been budgeted in full for 2004-2005.

Finding/Recommendation #4 – Vacaville utilizes multi-year budget plans and designs its infrastructure with total build-out of the City in mind. A study is being done to ensure the adequacy of impact fees on new development. A copy of the fee study should be forwarded to the Grand Jury when complete.

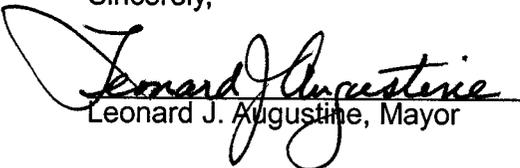
Response #4 – The City agrees with the finding and recommendation. However, the City has decided to hold off on an impact fee study until such time as the City undertakes an update of its General Plan. The General Plan is used to guide growth and development of the community through build-out. At such time when the impact fee study is updated, the City would be pleased to forward a copy to the Grand Jury.

Finding/Recommendation #5 – The City has funding available for interdepartmental loans at a competitive interest rate which must be used for projects. The City should continue to authorize these loans by Council action and insure that a repayment schedule is included in the Council action/resolution.

Response #5 – The City agrees with the finding and recommendation with one notable exception; that being the loans are "interfund" loans as opposed to "interdepartmental" loans. The City has a practice of loaning capital money between impact fee funds at competitive interest rates, with formal repayment terms, as long as the funds are available for their intended purpose when needed. The City Council recently approved such an interfund loan program (City Council Resolution #2004-32) for the new Vacaville Police building.

Please accept this letter as our response to the 2003-2004 Grand Jury Report as required by California Penal Code Sec. 933.05. The City of Vacaville recognizes the value of the Grand Jury process and appreciates their efforts, and hard work in the area of municipal audit and finance.

Sincerely,


Leonard J. Augustine, Mayor


David Van Kirk, City Manager

cc: Vacaville City Council
Clerk of the Board of Supervisors
Mike Johnson, Solano County Administrator