

OCEANO COMMUNITY CENTER

AN OLD FABLE -- REVISITED

SUMMARY

Prompted by a series of newspaper articles and related conversations, the Grand Jury conducted an inquiry into the origin, construction and planned utilization of the Oceano Community Center. During the course of our study, the Grand Jury was reminded of the old fable where three individuals are blindfolded and then asked to investigate and report on an elephant. Each individual approached the elephant from a different direction; one from the front, one from the side, and one from the back. Hampered by the inability to get a full view of the elephant, each individual developed a report based on available information. As one can imagine the three reports varied significantly. Our investigation identifies each of the “individuals,” provides a history of the “elephant” and ties together the individual “reports.” It concludes with recommendations for future projects, and it answers the question ... what did that elephant cost?

INTRODUCTION/PURPOSE

Funded almost entirely by grants and contributions from the Federal Government, the State of California, the County of San Luis Obispo, several Private Organizations and a construction loan, the Oceano Community Center (Community Center) is one of the, if not the, largest projects of its type undertaken in San Luis Obispo county. Given the positive intent of its proponents and the source and type of funding involved, the Grand Jury was surprised by the amount of rancor that was evident during the design, construction and ultimate sale of the Community Center. Presented with significantly different opinions from a variety of sources, the Grand Jury decided to investigate the Community Center project from its inception up to its ultimate sale to the Lucia Mar Unified School District. It is the hope of the Grand Jury that in preparing this report, we will be able to close the door on a long and very difficult struggle, and allow the Community Center to go forward as the positive asset that it should be to Oceano and surrounding communities.

METHOD/PROCEDURE

In the course of our inquiry, the Grand Jury:

- Interviewed appropriate individuals from the County, Oceano Community Center, Inc (OCCI), Oceano Community Services District (OCSD) and the Local Agency Formation Council (LAFCO). A total of 11 individuals were formally interviewed resulting in more than 19 hours of recorded testimony.
- Conducted approximately six hours of telephone conversations and informal meetings with individuals from the State, Lucia Mar Unified School District (LMUSD) and with CPA Firms within the county.
- Reviewed over 2,200 pages of printed documentation.
- Toured the Oceano Community Center.
- Verified that all facts and figures presented in this report were supported by at least one additional independent source.

NARRATIVE

One of the keys to an appreciation, and understanding, of the Community Center project, is recognition of the principal entities involved. Note the use of the word “entities..” This is important because entities are comprised of individuals, and given the time frame covered by the project (roughly 16 years) the membership of each entity did change.

Principal Entities

Federal Government – The U.S. Department of Housing and Urban Development (HUD) administers a program entitled the Community Development Block Grant (CDBG). Under this program, the Federal Government funds local community development activities such as affordable housing, anti-poverty programs, and infrastructure development. Funds from CDBG (a block grant program) differ from categorical grants (made for specific purposes) in that they are subject to less federal oversight and are largely used at the discretion of the state and local governments. The County is responsible for administering the CDBG program locally. For the

last several years, San Luis Obispo County has received roughly \$2 million per year in CDBG funds. Utilizing a formula based on population, CDBG funds are made available to qualifying projects within participating cities and the unincorporated areas of the county. Based on the formula, the unincorporated areas have been allocated approximately \$750,000 each year.

State of California (State) – The State offers a variety of programs to assist community projects. Most of these programs are intended to benefit specific demographic areas or population groups. The Oceano Community Services District (OCSD) was able to secure three separate grants from the State, which were used for the Community Center project. In 1989, OCSD received \$400,000 as the result of a 1988 Bond Act specifically for Special Districts. In 2002, OCSD was awarded \$500,000 as part of the Roberti-Z’Berg-Harris Act, which provided special assistance for a variety of recreational purposes. In 2003, the Land and Water Conservation Fund awarded OCSD a “cost matching” grant of \$69,432. All of these programs are administered by the Office of Grants and Local Services, which is part of the State Department of Parks and Recreation. Unless otherwise stated, any reference to the State is referring to this office.

Local Agency Formation Council (LAFCO) – LAFCO is a local agency, which derives its authority from the CKH Act, a section of the California Government Code. This law gives LAFCOs the power to “approve or disapprove with or without amendment, wholly, partially, or conditionally” proposals concerning the formation of cities and special districts and other changes of jurisdiction or organization of local government agencies. Reference is to the local office of LAFCO, which is responsible for San Luis Obispo county.

County of San Luis Obispo (County) – For the purposes of this report, references to the County, means the Board of Supervisors and that portion of the Building and Planning Department which oversees distribution of CDBG funds. Any other departments within the County, if mentioned, will be identified fully as they are referenced.

Oceano Community Services District (OCSD) – references to OCSD will include the OCSD Board of Directors, past and present, as well as associated staff.

Oceano Community Center, Inc. (OCCI) – a California non-profit corporation established in 1997 for the development, construction and operation of the Oceano Community Center. Since the sale of the Community Center, OCCI’s function has ceased to exist and the corporation is in the process of being dissolved. References to OCCI include its past and present officers, board of directors and employees.

Lucia Mar Unified School District (LMUSD) – The largest San Luis Obispo county school district, it was involved in all phases of the Community Center project and ultimately became the owner of the Community Center. References to LMUSD include those officials and employees directly involved with the Community Center project.

Private Organizations – references to Private Organizations include businesses, corporations, and other charitable organizations, which contributed money and/or in-kind services to the Community Center project.

Vocal Community – This term is used to identify a number of individuals and local organizations that campaigned both for and against the Community Center project. Specific identities are not germane to this report.

Major Milestones

Property Acquisition:

In 1989, OCSD was awarded a grant from the State for \$400,000. As per the conditions of this grant, the money was used to acquire approximately 1.4 acres of property and to help develop a playground thereon. The land acquired consisted of 1.25 acres purchased from LMUSD and 0.12 acres, which was provided, by the County, to OCSD at no cost. The cost of the property acquired from LMUSD was \$375,000. The estimated value of the lot provided by the County varies from \$10,000 (estimate in County files) to \$50,000 (estimate in OCSD grant application).

For the purposes of this report, the Grand Jury will use a value of \$25,000 for the property acquired from the County. This establishes the total cost of the 1.4 acres of property at \$400,000. This is significant, because this 1.4 acre plot, while originally the site of a playground for tots, ultimately becomes the site of the Community Center project.

An issue regarding the grant money from the State and the use of that money to purchase property for a recreation park was raised by the Vocal Community. Opponents of the project contended that at the time the grant was awarded OCSD did not have the authority to act on any issues regarding “Parks & Recreation.” In investigating this contention, the Grand Jury reviewed a report prepared by the County and submitted to HUD. The report concluded that while OCSD had failed in a 1989 ballot initiative to enact a tax assessment for parks and recreation, this failed ballot measure had no bearing on OCSD’s authority to provide parks and recreational opportunities. It also concluded that, by default, OCSD did have parks and recreation authority because when formed in 1981, OCSD was established with the “purposes and powers authorized under Section 61600 et. seq. of the California Government Code.” Section 61600 et. seq. includes the parks and recreation authority. The Grand Jury interviewed an official of LAFCO who confirmed that “prior to 1994 there was no requirement for Special Districts to receive LAFCO approval to activate a latent power.”

Concept and Design:

The genesis of the Community Center appears to have been the result of efforts by the Vocal Community. In the mid to late 1980’s Oceano residents were becoming increasingly concerned over juvenile gang activity and many felt that “something positive” was needed to serve as a central rallying point for the community. One suggestion was a facility that could not only be used by the youth of the community, but that could also serve as a meeting place for adults. Oceano community leaders and members of OCSD became increasingly active in promoting this idea and eventually solicited assistance from both the County and the State.

In 1995, the County entered into a contract with a company specializing in the planning and design of community projects. This company, with the assistance of a subcommittee of OCSD

and members of the County Planning Staff initiated a multi-phase program to better understand the wants and needs of the Oceano community; to assess opportunities to work with local service providers; and, to develop a draft building concept diagram for presentation to the Oceano community and to OCSD. As part of this process, three public workshops were conducted in the Oceano area and a questionnaire was widely distributed with the assistance of local members of the community, school children, local businesses and church groups. Given the high percentage of Spanish speaking residents in Oceano, at least one of the workshops was conducted in both English and Spanish. Additionally, the questionnaire was distributed in both English and Spanish. Feedback from the workshops and responses to the questionnaires were, based on 1990 Census Data for Oceano, determined to be statistically significant and representative of a cross-section of the Oceano Community. The final report, entitled “Oceano Community Center Needs Assessment Project” detailed specifics of the assessment project, included a conceptual diagram for a “community center” and a listing of potential activities, desired by the community, which could be conducted in the community center.

Soon after completion of the above study, the County entered into a contract with an architectural and engineering firm to determine the feasibility of the community center suggested by the earlier study. Again, OCSD created a subcommittee to work with the engineering firm and the County. The final report, entitled “Oceano Community Center Feasibility Study” identified the 1.4-acre property already owned by OCSD as the best available site for the community center (a total of six sites were investigated). The report also provided some physical design suggestions and estimates of the construction and on-going operation costs of the proposed designs. Interestingly, the report contained two separate estimates of construction costs. The first, dated December 1996, is for \$2,890,674. The second, dated February 1997, is for \$2,993,157. Both estimates are based on a facility with a gross square footage of 21,491. Given the total projected costs and the nebulous nature of the Community Center design, the total cost differential is not significant, but it does help illustrate the difficulties involved in obtaining and developing detailed data in the early stages of projects of this magnitude.

In November 1997, Oceano Community Center, Inc. (OCCI) a California non-profit corporation was formed. Incorporation documents on file with the State indicate that OCCI was formed to “develop, construct and operate” the proposed Oceano Community Center. The Grand Jury was unable to locate anyone who could state specifically why a separate legal entity (OCCI) was formed, but the consensus of those questioned indicate that OCCI was established as a result of the following:

- A belief that as a non-profit corporation, OCCI would be in a better position to solicit, and obtain, specific grants and charitable contributions for construction of the Community Center.
- A growing awareness on the part of OCSD as to the financial scope and level of effort that would be involved in a project the size of the Community Center. OCSD already had a list of services that it was required to provide to the Oceano community and while they continued to support the idea of the Community Center, they were not confident in their ability to directly undertake the additional responsibilities and financial risks involved.
- OCCI, as a separate entity, would be in a better position to concentrate on the on-going demands of the Community Center project.
- OCCI’s Board would, in part, be composed of selected individuals from the Vocal Community. This would allow OCCI the flexibility to solicit board members with the specific skill set(s) most appropriate for its needs.
- OCCI’s Board would also include OCSD representatives. This would help insure open communications between OCCI and OCSD.

In November 1998, the County reimbursed OCCI for the costs associated with what was termed a “financing plan” for the Oceano Community Center. In reality, what the County reimbursed OCCI for was the costs associated with the development of a proposal entitled “Oceano Youth Center.” This proposal was developed by OCCI for presentation to the California Department of Youth Authority, Office of Prevention and Victims Services. The proposal was seeking a significant grant from the State to offset most of the projected costs associated with the construction of the proposed Community Center. This was not a significant misrepresentation on

the part of either the County or OCCI, as the proposal contained the financial information needed by the County and the reports “dual use” simply allowed OCCI to “kill 2 birds with 1 stone.” The important information provided as a result of the report included a total estimated project cost which had grown to \$3,359,627. OCCI was not successful in obtaining the grant from the Department of Youth Authority.

In January 2001, OCCI entered into an Option to Lease Agreement with OCSD. This is significant in that OCSD owned the 1.4 acres on which the Community Center was to be built and OCCI had to obtain legal access to the property for construction of the Community Center building. In summary, the Option to Lease Agreement said that OCSD would lease the property to OCCI provided that certain conditions were met. The most important of these conditions was that, prior to beginning construction, OCCI had to have “sufficient funds available” to complete construction of the Community Center and to operate it as a recreational facility for three years after construction was completed.

Phase 1 Construction:

Contrary to the conditions of the Option to Lease Agreement, in early 2003, OCCI made the decision to split the Community Center project into 2 phases. Phase 1 being the construction of the physical shell of the Community Center building and Phase 2 being the finishing of the building interior and the final landscaping. It is not clear whether this decision was OCCI’s to make, but it is clear that OCCI did not make this decision “in secret.” If not actively involved in the decision process, both OCSD and the County were aware of the decision and the risks involved. Actual construction of the Community Center building began in June 2003. It appears that OCCI, at the start of Phase 1, did have adequate funds, either in-hand or committed, to cover all of the costs to finish construction of the building shell.

Phase 2 Construction:

The decision to split the Community Center project into 2 phases and to begin phase 1 without the funds available to complete both phases was definitely risky. It pales, however, when compared to the decision that faced OCCI, OCSD and the County in late 2004. At this point,

construction of the building shell was complete and the money was almost gone. Negotiations with another organization to share the Community Center had failed and the often promised (but never seen) “mystery investors” had disappeared. The completion of the Community Center project was in genuine doubt. Additional CDBG funds were not available; OCCI was almost out of resources; and, OCSD did not have the funds available to finish the project. The latest grant application to the State was marked by internal bickering both within OCSD and between OCSD and OCCI. OCCI, after promising to completely handle the grant application, appears to have botched the timing of the application process and approached OCSD at the last minute for required signatures and authorizations. Based on minutes from December OCSD Board Meetings, it appears that the grant application may have been filed before it was properly authorized by OCSD. A review of the grant application obtained from the State shows a notation to that fact, and the file includes a later letter, which does include the OCSD approvals, which were authorized at a subsequent OCSD Board Meeting. The State ultimately denied the grant application.

Unable to identify any other funding sources, OCCI made a decision which ultimately would “break the back” of their ability to operate the finished Community Center on an ongoing basis. The decision was to enter into a construction loan agreement, which included a line of credit from a local bank. While the line of credit would insure the completion of the Community Center building, monthly payments on the resulting \$1.7 million dollar loan were \$13,000 per month. There was absolutely no way that OCCI could generate revenues sufficient to operate the Community Center and to repay the loan. Revenue projections provided by OCCI as part of the loan application package were based on hopes, not reality. While the decision to obtain a construction loan was made by OCCI, it needs to be made clear the decision was done with the knowledge and cooperation of both OCSD and the County.

Before the bank would grant the construction loan to OCCI, OCCI had to document to the bank that they (OCCI) had legal access to the property on which the building was constructed. This loan condition required OCSD and OCCI to finalize the 2001 Option to Lease Agreement. This was done and a formal 99 year Lease Agreement was filed with the County Recorder’s Office in

July 2005. In entering into this Lease Agreement, OCSD was effectively supporting OCCI's loan application and, equally important was relinquishing the bulk of their remaining controls over the operation of OCCI.

Sale of the Community Center:

Construction on the Community Center was completed in June 2006 and the facility was opened to the public soon thereafter. The construction loan secured the previous year had included some funds to address initial operating expense requirements, but it soon became evident that while OCCI possibly could generate sufficient revenue to address operational costs, there was no way that they would be able to cover the monthly payments required to repay the construction loan. A number of possible alternatives were investigated, the most viable of which resulted in the September 2008 sale of the Oceano Community Center to LMUSD. Terms of the purchase agreement called for a payment of \$1.7 million (the balance remaining on the construction loan) and for LMUSD to "... assume, agree to satisfy and discharge all of OCCI's obligations ..." pertaining to the property.

Comments about the "Individuals"

To this point, this report has progressed on a chronological basis. This was intentional to help ease the understanding of a complex project, which evolved over a long period of time. As promised, we have summarized the Community Center project from its inception to its sale to LMUSD. For the balance of this narrative, the report will shift to the primary "individuals" involved in the project and will discuss incidents which were important to the project, but which did not fit easily into a timeline-based analysis.

HUD

In 2005, the County received, and responded to, a letter from HUD referencing a complaint which HUD had received alleging the misuse of CDBG funds by OCCI. The letter, while not identifying the source of the complaint, contained a series of allegations against both OCCI and OCSD. The letter from HUD was sent to the County in its role as Grantee of the CDBG funds

involved. The County responded to HUD, in detail, denying each of the allegations. The County's response appears to have satisfied HUD's concerns.

State

The State acknowledged that they also received allegations concerning the Community Center project. The Grand Jury did not investigate specific actions by the State in response to the allegations, other than to ascertain that the allegations were similar in detail and were received in the same general timeframe as those received by HUD (see above).

The State also expressed concern to the Grand Jury over the sale of the Oceano Community Center to LMUSD. The State's concern was not over the actual sale of the property, but whether or not the Community Center and the property on which it was situated would continue to be used for "recreational purposes" which was a condition of their grants. This "recreational purposes" condition is in effect "in perpetuity." Conversations with both the State and the County have lead the Grand Jury to believe that the State will rely heavily on the County to both define "recreational purposes" and to monitor future use of the Community Center.

County

The Grand Jury found the County's participation in the Community Center project to be well documented and information readily available. Over the time span covered by this report, the County directed funds to the project in three different manners, all of which are included in the attached Summary of Funding Sources (Appendix). First, early on in the project, the County paid vendors directly for studies regarding the concept and the feasibility of the Community Center. Money for these payments came from CDBG funds. Second, CDBG funds were provided directly to OCCI for payment of construction related goods and services. Third, Public Facility Fee (PFF) funds were also provided directly to OCCI for payment of construction related goods and services. PFF funds are derived from fees collected with residential construction permits to help offset the county's cost of constructing, expanding or improving public facilities.

In its role as “grantee” of the CDBG funds, the County maintained good management control and accurate financial accountability. After the initial studies, and prior to actually providing any CDBG funds directly to OCCI, the County entered into a written agreement with OCSD and OCCI that detailed the terms and conditions, which were applicable to the funds being provided. Additionally, the County remained involved in, or at least aware of, actions taken by OCCI during the planning and construction phases. Attendance by the County at many of the OCCI board meetings was noted in minutes from those meetings. As mentioned earlier, the State grant funds provided to OCSD for the Community Center project included specific conditions on how those funds could be used. The County did a good job of keeping the State aware of planned uses of the grant funds thus helping assure continued State support for the project.

In regards to the agreement defining use of the CDBG funds, two points need to be discussed. The first point is merely an observation and fairly general in application. The second point is specific to this agreement and raises some concerns. First, the Grand Jury noted that the agreement contained no mention of any type of security interest on the part of the County. The specific terms of the agreement were clear, but the only recourse in the event of failure of either OCSD or OCCI to conform to those terms was a requirement to repay the funds provided. A security interest provision in future agreements would provide the County more flexibility and greater control in the event of a default by the recipient of the CDBG funds and/or an inability or unwillingness on the part of that recipient to repay the provided funds.

The second point, specific to this agreement, is a concern by the Grand Jury regarding the speed and degree to which the initial agreement was modified.

- The initial agreement, dated May 2003, committed \$667,433 in CDBG funds for the Community Center project.
- Three months later, August 2003, Amendment #1 was added to the agreement. This amendment committed an additional \$782,773 (a mixture of CDBG & PFF funds).
- Less than 6 months later, in February 2004, Amendment #2 was added which committed an additional \$213,200 from CDBG funds.

- Roughly 2 months after that (April 2004) Amendment #3 was added which committed an additional \$70,000.
- In March 2005, Amendment #4 added an additional \$210,487.
- In August 2006, in an action not covered by the agreement, the County committed an additional \$100,000 in PFF funds.

The Grand Jury is aware that it is not our role to question the decisions by the County in regards to any of the fund commitments. Our concern is in the speed and size of the amendments added to the basic agreement. We have one question for which we were unable to determine an adequate answer:

1. At the start of the Community Center project, was the County adequately aware of the size of the financial commitment that would eventually be required?

The Grand Jury heard testimony about the inconsistent flow of CDBG funds, rapid increases in construction costs, and received assurances that it was always “under control.” As mentioned earlier in this report, the Grand Jury is aware of the difficulties in establishing firm cost estimates, but given the professional experience of the County in the construction of large structures, the excellent level of awareness maintained by the County during the project, and the warnings provided in the “Oceano Community Center Feasibility Study” paid for by the County, it should have been apparent to the County, prior to its initial commitment of \$667,433 that significantly more funds were going to be required. The Grand Jury was unable to find any such acknowledgment during any of its interviews, or in its review of County and OCCI records.

SLO District Attorney

As a direct result of complaints from the Vocal Community, the District Attorney’s office conducted at least two separate inquiries associated with the Community Center project. Both inquiries included research on the part of the District Attorney’s office and interviews with associated members of the community. Both investigations concluded that there was not sufficient justification to elevate the inquiry to a formal investigation. The Grand Jury reviewed both files, including the actual complaints, notes and documentation gathered during the inquiry,

and the summary reports written by the member of the District Attorney's office conducting the inquiry.

As a result of our review of those files, the Grand Jury has two observations:

1. We agree with the District Attorney's decision not to elevate the inquiries to the status of a formal investigation.
2. The date and allegations contained in one of the files reviewed were strikingly similar to the date and allegations contained in the complaints (mentioned earlier) received by HUD and by the State.

OCSD

Often overlooked in the saga of the Community Center project, OCSD deserves much of the credit for the initial concept and early progress of the Community Center project. OCSD members have both supported the project and served on the Board of OCCI. OCSD contributed the property on which the Community Center is located. OCSD also served as the applicant and grantee on the grants received from the State.

The Grand Jury notes, however, that OCSD management oversight of the Community Center project was weak. Despite having OCSD members serving on both the OCSD and OCCI boards, OCSD did little to take advantage of these dual relationships. The Grand Jury could find no evidence of a formal procedure whereby those members serving in a dual capacity could keep OCSD apprised of OCCI progress, or lack thereof. The first establishment of a formal reporting procedure by OCCI to OCSD appears as a result of an April, 2005, Grant and Construction Management Agreement between OCSD and OCCI. It should be noted, however, that this agreement came into existence well after the establishment of OCCI and after actual construction on the Community Center project had begun. It appears that this agreement, in addition to defining some reporting responsibilities, was intended to serve as a "protective screen" for OCSD in the event that existing Community Center funding problems could not be resolved. Interviews with OCSD and OCCI, as well as timely newspaper articles and editorials, told of on-going bickering and disagreements. A 2005 email from an OCSD staff member to an OCSD

board member noted that "... OCCI is gun shy about any negotiation with the District [OCSD] or showing up at any meetings because they nearly always are the subject of target practice."

One of the allegations contained in the complaint submitted to HUD (discussed earlier), was that there were significant "OCSD accounting irregularities." Nothing in this specific allegation directly referenced the Community Center project, but the alleged irregularities did occur during the same time frame as the project. A complete investigation of this allegation was not conducted by the Grand Jury, but both OCSD and OCCI were interviewed regarding accounting and financial control procedures as they applied to the Community Center project. Based on this limited review, the Grand Jury found no evidence of significant accounting irregularities, but did conclude that OCSD financial oversight of the Community Center project was weak. Some observations:

- Prior to the April, 2005, Grant and Construction Management Agreement, there was no evidence of a requirement for regular financial reporting from OCCI to OCSD.
- In acting as a "pass-thru" agent for State grant funds, OCSD did establish a separate account for the grant monies received. They also required appropriate documentation from OCCI prior to releasing those funds to OCCI. However, a review of OCSD Audit Reports submitted to the County could find no evidence of this activity. A memo from the SLO County Auditor's staff commented "It is possible that the funds were deposited in a special general ledger account and disbursed directly from that account in which case the activity would not appear on their balance sheet or income statement. This method would not be considered GAAP (generally accepted accounting practice) but it is not illegal to account for funds in this manner."

OCCI

From its formation in 1997 until the sale of the Community Center building in 2008, OCCI was a major force behind the Community Center project. Credit should be given for the completion of a difficult project utilizing a workforce of volunteers and a single paid employee. At the same time, the Grand Jury wonders if the single-minded attitude of OCCI might not have been a contributor to some of the problems experienced by the project. During interviews, OCCI

personnel contended that its operations were conducted in an open format and that communication was always a priority. Complaints from the Vocal Community, however, painted a different picture. The Grand Jury believes that the reality is somewhere in between the opposing viewpoints, but found few specific examples of outgoing communications on the part of OCCI.

Due to time and resource constraints, the Grand Jury was unable to fully review the accounting and recordkeeping procedures utilized by OCCI. We did, however, review and have in our files, OCCI Internal Revenue Service filings for 1998 through 2008. Additionally, we have obtained copies of independent audit reports for the years 2000 through 2006. OCCI appears to have made timely filings of all required financial documentation. Much of the information contained in the attached Summary of Funding Sources was either obtained from, or verified with, these financial records.

While the Grand Jury found no faults with the recordkeeping process, the financial forecasting capabilities of OCCI varied from weak to very questionable. An OCSD staff report, referring to OCCI financial input, states that “It is unclear whether this document is the old outdated project cost estimate, or an updated one. In any case, it is so brief that it prevents any reasonable analysis of the items covered and it does not cover the entire project so it is impossible to analyze...” Later in the same report when discussing specific cost items “This tends to indicate that the numbers were simply ‘plugged’ to make sure the budget balanced.” When reviewing income forecasts by OCCI, the same report states “There is nothing to indicate that any of these funds have been secured yet, or the basis for the expectations.” In a 2002 grant application submitted to the State, OCCI says “... it was determined [by OCCI] that Page Youth Center in Goleta’s operations and facility were most comparable to the Oceano Community Center, and its operational budget provided the basis for the Community Center’s plan.” The Grand Jury has difficulty accepting a Goleta to Oceano comparison, and notes that the Goleta facility is 50% larger than the Oceano Community Center. In the same grant application, OCCI shows additional anticipated funds of \$1,141,463 from “individual and corporate/business donors.”

There is no breakdown of those donors, nor is there any evidence of the \$1,141,463 ever being received.

LMUSD

The Grand Jury believes that the June 2008 sale of the Oceano Community Center to the LMUSD was a very positive event for all parties associated with the project. In support of this belief:

- County – The County’s investment in time and money is safe. LMUSD is the largest school district within the county and is uniquely qualified to operate and maintain a facility the size of the Oceano Community Center.
- HUD and the State – In the purchase documents, LMUSD has accepted the conditions placed on the funds, which were provided and has indicated that they will operate the facility in compliance with those conditions.
- OCSD – The Oceano Community Center is a facility of which Oceano can be proud. The Grand Jury would encourage OCSD to take the initiative to establish communications with LMUSD and to become involved in plans for use of the facility.
- OCCI – Your job is done.
- Vocal Community – The Oceano Community Center is in good hands. One should be proud of it, support it, and take advantage of what it has to offer.

FINDINGS

1. The allegations which served as the basis for the 2005 HUD letter to the County Planning Department, the references by the State to a “complaint”, and at least one of the inquiries conducted by the SLO District Attorney’s Office were generated by the same individual(s).
2. The amount of CDBG funds provided to the Oceano Community Center project represented the equivalent of more than 2 ½ years of “normal” CDBG funds allocation for the entire unincorporated areas of San Luis Obispo county.

3. The 2008 purchase of the Oceano Community Center by LMUSD is a positive outcome. LMUSD is uniquely qualified to both maintain and operate the physical structure.
4. The legal requirement that LMUSD continue to operate the facility for the “benefit of the local community” helps insure that the Community Center will be able to go forward as the positive asset that it should be to Oceano and surrounding communities.
5. The County is best positioned to monitor and insure continued operation of the Oceano Community Center for the “benefit of the local community.”

RECOMMENDATIONS

1. **The Grand** Jury recommends that LMUSD take the opportunity presented by this report to affirm their intention to operate the Oceano Community Center for the continued benefit of the local community.
2. The Grand Jury recommends that OCSD take the initiative to establish communications with LMUSD and to become involved in plans for use of the facility.
3. The Grand Jury recommends that the County give strong consideration to having a security interest in future projects of this type and size.
4. The Grand Jury recommends that the Planning and Building Department should be required to keep the County appraised of total estimated costs and associated risks involved in an entire project, not just the County’s portion, both prior to, and during, that project.

DISCLAIMER

This report of the San Luis Obispo County Grand Jury was approved without the vote of one Grand Jury member who is the spouse of a current member of the OCSD Board of Directors. To reduce or avoid any perception of conflict of interest, this Grand Jury member abstained from any vote on this report and had no other role in the discussion or preparation of this report, except for attending some Grand Jury interviews relating to this report.

REQUIRED RESPONSES

Responses to the Findings and Recommendations are required as follows:

- **Department of Planning and Building:** Finding #5 and Recommendations #3 and #4.
- **Lucia Mar Unified School District:** Finding #4 and Recommendations #1 and #2.
- **Oceano Community Services District:** Recommendation #2.
- **San Luis Obispo County Board of Supervisors:** Finding #5 and Recommendations #3 and #4.:

The responses from the Department of Planning and Building, Lucia Mar Unified School District and the Oceano Community Services District shall be submitted to the Presiding Judge at the San Luis Obispo Superior court by **August 18, 2009**. Please provide a copy of all responses to the Grand Jury as well.

The responses from the San Luis County Board of Supervisors shall be submitted to the Presiding Judge at the San Luis Obispo Superior court by **September 17, 2009**. Please provide a copy of all responses to the Grand Jury as well.

The mailing addresses for delivery are:

Presiding Judge	Grand Jury
Presiding Judge Martin Tangeman Superior Court of California 1035 Palm, Room 385 San Luis Obispo, CA 93408	San Luis Obispo County Grand Jury P.O. Box 4910 San Luis Obispo, CA 93403

APPENDIX

Funding Sources

The ability to generate a detailed recap of the exact income and expenses involved in the Oceano Community Center project was beyond the time and resources that the Grand Jury was able to allocate. An exact recap, with complete verification, would involve financial input from several government agencies, all of which have June through July fiscal years and utilize accrual accounting procedures; several private corporations, most of which have January through December fiscal years and utilize accrual accounting; and, OCCI records which utilized a January through December fiscal year and cash accounting procedures. In addition to the differences in fiscal years and accounting procedures, some funds came to OCCI through other agencies, which were handling specific funds on a “pass thru” basis. For example, the State provided grant dollars to OCSD specifically for the Oceano Community Center project. The State (utilizing accrual accounting) would recognize the “expense” of the grant award at the time that the grant was awarded. This money was held by OCSD (accrual accounting) and dispensed to OCCI as OCCI submitted vendor invoices as justification. Once OCCI had received the money, checks were generated and distributed (on a cash accounting basis) to the individual vendors. These complexities are not meant to imply that the following financial recap is inaccurate. In fact, the Grand Jury believes that the following is the most complete, and accurate, recap available of the actual costs. All figures have been verified by at least one additional independent source.

OCCI records indicate that there was less than \$5,000 in cash remaining at the time of the sale of the Community Center to LMUSD, the Grand Jury concluded that a verification of all funding provided for the Community Center would provide an accurate approximation of the total cost of the Community Center.

Summary of Funding for the Oceano Community Center

SAN LUIS OBISPO COUNTY

• CDBG Funds	\$1,904,409
• PFF Funds	500,000
• In-Kind Contributions (1)	55,491
County Contribution	\$2,459,900

STATE OF CALIFORNIA

• Grants (2)	\$944,432
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PRIVATE CONTRIBUTIONS

• Contributions (3)	\$581,373
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OTHER IN-KIND CONTRIBUTIONS

• OCSD and Others (4)	\$56,571
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OCCI

• Fund Raisers & Operations (5)	\$130,956
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CONSTRUCTION LOAN

• Repaid as part of Sale	<u>\$1,700,000</u>
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TOTAL OF FUNDING	<u>\$5,873,232</u>
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Notes to Summary of Funding:

1. County non-cash contributions. Primarily property given to OCSD and Permit Fee waivers.
2. Includes grant used to acquire property, which OCSD provided to the Community Center.
3. Cash contributions either as gifts or grants.
4. Non-cash contributions. Primarily Permit & Hook-up Fee waivers.
5. Gross income from fund raising activities and two years of operation as a community center.