

MINUTES OF THE SPECIAL MEETING  
OF THE CITY COUNCIL,  
NEEDLES PUBLIC UTILITY AUTHORITY  
NEEDLES, CALIFORNIA

Tuesday, May 27, 2014

**Call to Order**

Mayor Paget called the meeting to order at 4:00 p.m. in the Council Chambers at 1111 Bailey.

**Roll Call**

Present: Mayor Edward T. Paget, M.D.; Council Members Jim Lopez (arrived 4:25 p.m.), Linda Kidd, Tony Frazier, Terry Campbell, Tom Darcy and Shawn Gudmundson (arrived 4:01 p.m.). Also present City Manager Rick Daniels; City Attorney John Pinkney and City Clerk Dale Jones.

**Public Appearance**

Mr. Adrian Chavez, Park and Recreation Commissioner, voiced his concerns regarding possible budget cuts in the park and recreation departments. The recreation department is for the children in our city and urged council to look for reductions elsewhere.

Ms. Gaby Belt, Park and Recreation Commissioner, also voiced her concerns regarding possible budget cuts in the park and recreation departments. She informed council that the recreation department has a great program; it is affordable and offers opportunities to children.

Ms. Tona Belt informed council that she chooses to live in Needles because of the opportunities that the recreation department offers her children and urged council to look at other options to cut the budget for the kid's sake.

Mr. Bob McKeever informed the council that last weekend the facilities at the golf course clubhouse were backed up because of the people on the beach and suggested that during the summer months that portable potties are placed on the beach.

**1) Discussion regarding the proposed City Budgets and NPUA Budget for Fiscal Year ending June 30, 2015**

City Manager Daniels reported that the City of Needles continues to be adversely affected by the recession and depletion of cash on hand. Despite revisions made during the mid-year budget during which the deficit was reduced by approximately \$100,000 the budget includes a \$339,000 deficit for this fiscal year. The City is operating in a structural deficit requiring the use of reserves to meet anticipated budgetary expenditures. The City started the current fiscal year with \$600,000 in reserves and a planned deficit of \$449,000. The midyear budget revision reduced that deficit by approximately \$100,000. At the midyear projected rate, the City will have a reserve of only \$355,000. Therefore, steps will be needed immediately to reduce costs and/or increase revenues and to quickly recover allocated reserves. It is imperative the City further act to minimize the imbalance during FY 2013-14 and construct a balanced budget for 2014-15.

He continued that it is clear the impact of the recession on the City's finances will continue to reflect little if any growth in assessed valuation and development related revenues in the current and upcoming fiscal year. The City is showing signs of slight growth in other areas of the revenue budget including UUT, TOT, and Sales Tax. However despite outsourcing of services, negotiated compensation reductions, and increased fees these slight increases are not sufficient to make up for the loss of *revenue* from the elimination of the redevelopment agency and reduced property taxes as well as increased operating costs. There are few opportunities to increase revenue, but not at a high enough level to eliminate the actual and projected deficit without voter approved tax revenue increases. While such increases are possible, the options are constrained by current economic conditions including high unemployment and low per-capita incomes.

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The revenue exception is an optional prepayment on the debt owed by the NPUA to the City. The NPUA approved a partial optional prepayment three of the last four years of \$250,000, \$400,000, and \$350,000. The NPUA did not make any optional prepayment on the debt during FY 2013-14 and therein lays the deficit for the current year. The NPUA is also distressed financial thus not able to make an optional prepayment without rate increases to the three utilities. Additionally, the NPUA owes the City Utility Fund \$808,000.

City's costs continue to increase in non-personnel items such as insurance, PERS employer's contribution, worker's compensation, costs to comply with state mandates, and other goods and services. In order to avoid a fiscal crisis over the next 12-15 months, Needles must take immediate action to reduce those expenditures it can control, collect what is owed, raise user and regulatory fees, and begin on initiatives that will bring long term revenue to the City.

Recent events such as the closing of Basha's Grocery will adversely affect the City's revenues for the upcoming year as it remains vacant for an undeterminable period of time however, except to hear some good news in the near future.

City Manager Daniels continued that each department constructed their budget requests which were reviewed with the Finance Director and modified at the direction of the City Manager. The draft Proposed Budget forecast a \$757,569 deficit for the upcoming year. That draft was shared with the Budget Committee. They concurred with proposed revenue/expenditure changes totaling \$460,000. A second round of meetings occurred during which the Departments proposed additional expenditure reductions and revenue increases to address the budget imbalance. This Budget incorporates those changes, but for Recreation which is still in review.

An exception is the Public Safety budgets of Fire and Law Enforcement which are contract services. Both County agencies propose significant increases. Further reductions should be sought from Public Safety provider's costs. A proposal for a 10% reduction in law enforcement is recommended. A request for a reduction in Fire Services should also be sought. The Fire budget for the current year is \$608,026. The proposed 2014-15 rate is \$671,404 or an 11% increase. We are also asking the Sheriff to consider a reduction in their proposed contract.

The significant changes in expenditure reductions are Public Works (\$50,000) with no planned capital improvements and elimination of one position: Parks, Building and Grounds (\$100,000) - there will be a significant reduction in the areas of overseed next year, including the golf course, Civic Center, and Santa Fe Park - a vacant position will remain so - reduced watering and mowing of the golf course and City parks and grounds - reduced janitorial service at City facilities: Golf Course (\$50,000) - there will be reduced hours of golf shop operations during the summer months - a proposed \$3/round fee increase - revision to policy on complimentary golf: Parks and Recreation (\$50,000) - the School District has agreed to pay for additional aide hours for the after school program - the Summer day camp program has been reduced from 8 to 4 weeks - proposed increase in Jack Smith Park annual pass to \$150: and Cemetery (\$26,000) - Use of cemetery reserves and investigate privatization.

Revenue increases will come over the long term as the economy recovers and the property values of 2008 are restored. New development such as the Chester's Chicken, Circle K, and others will increase the property valuation as well as increase sales tax revenues. Continued marketing and permit streamlining efforts must be continued.

The City needs to collect what it is owed from existing regulations and requirements. City Business Licenses need to be monitored to make sure that only licensed contractors operate in the City and that they have proper licenses and permits. The City is embarking on audits of the Transient Occupancy Tax and the Medical Marijuana Tax.

The City is entitled to capture User and Regulatory Fees for special services provided that are not provided to the general public such as Building and Safety and Land Use reviews, recreation and building rentals. The Proposition 26 limitation is that the fees be reasonable, fair, and equitable in nature and proportionately representative of the costs incurred. Fee changes require a Cost of Services Study which  
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quantifies the City's actual costs in providing the service. The last such study was completed in 2006. Minor fee adjustments to reflect the cost of living have been implemented on an irregular basis since then. The only long term solution is to submit a tax measure to the voters for their approval. Possible tax measures include the following; Transient Occupancy Tax increase; Parcel Tax; Sales and Use Tax; Business License Tax; Utility User Tax; Documentary Transfer and Real Property Transfer Taxes.; Construction/Development Tax and Mello-Roos Community Facilities Tax.

Recommendations are to be more aggressive in the collection of licenses, fees, and permits; implement full cost recovery for fees such as building, planning, public works, and parks and recreation through a new Cost of Services Study; continue aggressive management of expenditures; policy direction on further cuts and submit a money measure to the voters.

City Manager Daniels concluded that the City Council and management will need to take steps to communicate openly and candidly with the public and engage them, managers, employees, and unions/associations about the City's financial position and the options available to create financial stability and resiliency. Employees and managers may well have other ideas to offer that should be analyzed and considered. The best thinking of everyone in and out of the organization will be needed to make the necessary fundamental changes. The City has competent and capable employees who are committed to providing valued services to the Needles community and who are proud of the professions they represent. Engaging City staff in the next phases of the budget stabilization process will be important to the long term health of the organization. Communicating early, transparently, and frequently about proposed changes, as well as why the changes are important is an essential part of effective change management. Openness, engagement, and a spirit of teamwork will be critical for the City to emerge from what will be a very difficult phase of changing some fundamental elements within the organization.

Considerable discussion ensued relative to the increases in the fire contract and options were discussed such as using paid call fire fighters as a cost savings measure: the sheriff's contract has also increased and they need to know we can't afford increases every year, such increases are usually a result of the sheriff's employee negotiations where the city does not have the ability to participate: most cities do not make money on recreation and aquatic programs however we need to review the fees being charged and increase some of the fees to decrease the general fund subsidy: that the animal control department and shelter are also subsidized by the general fund and may be in jeopardy of closing as state law requires us to have a California veterinarian on record and if it should close the impact to our community: and he will be meeting with the Park and Recreation Commission to discuss fees.

City Manager Daniels reviewed the NPUA budgets which consist of electric, water and wastewater. The budget is first presented to the Utility Board for their review and approval. In 2011, the net revenue and expenses for the NPUA showed a positive balance of \$330,679, but a negative balance of \$2,769,592 in 2012 for a total negative balance between those two years of \$2,438,913. The projected net balance for the current fiscal year is a negative \$752,851. The Proposed Budget without further cuts and/or revenue enhancements will add another \$538,625 to that loss making for a grand total loss of \$3,730,389 since 2011-12. Therefore, the Proposed Budget is presented in three different versions. The Proposed Budget (Draft A) is very similar to the 2013-14 Revised Budget that your Board reviewed and approved in February with the following material variances: revenues are up approximately \$150,000 primarily as a result of transfers in from other funds, expenditures are down approximately \$65,000 primarily from deferred water capital projects, reduces projected deficit from \$752,851 to \$538,625. Draft B holds expenditures and revenue the same as Draft A, but adds a 12% rate increase for all three utilities for the last half of the Fiscal Year. The rate increase is delayed until then because selection of the rate expert, their work, and the process for establishing any new rates will take at least six months. That rate increase reduces the projected loss from \$538,625 to \$137,213. Draft C holds expenditures and revenue the same as Draft A, but adds a 24% rate increase for all three utilities for the last half of the Fiscal Year for the same reasons as mentioned above. That changes the Proposed Budget from a negative \$137,213 to a positive \$264,200.

Another modification from previous NPUA Budgets is that Capital Improvements are budgeted separately from operations. For purposes of this budget a Capital improvement is an expenditure in excess of \$30,000 that results in a tangible asset, such as a new or replacement water tank, but not a new vehicle. There are no capital improvements budgeted. Since the preparation of the Board Packet meetings have been held with Department Managers regarding further cuts to the operating component of the budget and are eliminating three positions which will save \$181,900 which will require greater collaboration amongst the utility departments and with Public Works.

Continued discussion ensued relative to proceeding with a utility rate study and possibly increasing the utility deposits to help offset the bad debt. Mr. Jack Lindley, Electric Line Supervisor, voiced his opinion that they would have \$500,000 if the city collected what was owed to us and recommended that deposits be increased. City Manager Daniels informed those present that he is available for questions and any suggestions.

Mayor Paget declared the special meeting of the NPUA/City Council held on the 27th day of May, 2014, adjourned at 5:30 p.m.

ATTEST: \_\_\_\_\_  
Mayor Edward T. Paget, M.D.

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City Clerk Dale Jones, CMC