

BOARD OF PUBLIC UTILITIES

February 18, 2014

The regular meeting of the Board of Public Utilities held on the 18th day of February, 2014, was called to order at 4:04 p.m. with VICE CHAIRMAN SHAW presiding and the following COMMISSIONERS present:

COMMISSIONERS SULLIVAN, MOFFITT AND SHAVER

Also Present: SECRETARY SALLIS, CITY MANAGER DANIELS, ASST CITY MANAGER BROWNLEE AND OTHER KEY STAFF

APPROVAL City Manager Daniels noted that some council members have requested that
AGENDA item 6b) (Resolution No. 2-18-14 BPU approving a prepayment of \$350,000 of the utility purchase price) be dealt with as the first item.

CHAIRMAN POCOCK and COMMISSIONER SCHNEIDER entered the meeting at 4:05 p.m. and CHAIRMAN POCOCK assumed the chair.

COMMISSIONER MOFFITT MOVED, SECONDED BY COMMISSIONER SHAW, to approve the agenda with the change to move item 6b) as the first item of business. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

NEW BUSN: Asst City Manager Brownlee explained that the request for a prepayment of the utility purchase price is not a new idea and staff has been before the Board in the past. The Needles Public Utility Authority (NPUA) is an alter ego of the city and one is dependent on the other and visa versa. He spoke on the financial difficulties the city's general fund is experiencing and the precautions being taken to introduce the caveats brought up by COMMISSIONER SHAVER (former mayor) and the perimeters to spending the prepayment dollars.

RESOL NO
2-18-14BPU
APRV PRE-
PYMT OF
\$350,000

COMMISSIONER SHAW questioned the regular purchase payments being made by the NPUA noting that we're always hearing about prepayments. Asst City Manager Brownlee explained the annual purchase payment of \$670,000 and the prepayment bridging the gap between now and June 30, 2014. This request is the first time that the source of funds is the electric asset replacement fund so it will not materially impact the NPUA fund.

CHAIRMAN POCOCK spoke on the purchase agreement and use of excess revenues to fund any extra payments. Electric asset replacement funds would have to be declared excess before they could be used. He felt that this request is different from past requests as the Board has always been presented with a wealth

of revenue to make previous prepayments and have never been asked to take it out of a restricted fund. This could leave us subject to violation of Prop 26 by using earmarked funds collected for a specific purpose.

City Manager Daniels spoke on the city's budget adoption last year which was at a deficit when adopted. There's about \$100,000 less now in that deficit than when the budget was originally adopted. He felt the alternative to the asset replacement fund would be projected cash of \$448,000 as of June 30, 2014. Next year if the city is able to hold its costs and the Bashas' payment ends, he felt it would be logical for the city to come back for \$139,000 prepayment, not \$339,000 as is being asked for now.

Terry Campbell, councilman, expressed his concern with taking the prepayment out of asset replacement and would be more comfortable with taking it out of excess cash if that is available. He suggested continuing this for the next five years to improve the cash in the utilities and in the city. The city and utilities need to work together to build up cash reserves to survive the downturn in the economy. Councilman Campbell suggested the Board consider cutting back in the electric asset replacement fund and redirecting that accumulation for the prepayment.

CHAIRMAN POCOCK questioned the process to increase the utility users tax (UUT). He suggesting letting the people vote to increase the UUT if the current 2.5% is not covering the city's expenses. COMMISSIONER MOFFITT agreed that he does not want to open up the asset replacement as that is a restricted fund and once we do that, everything is open to take.

Councilman Campbell suggested lowering the asset replacement revenue as it's now almost \$4 million and decreasing the rates, then doing a Prop 218 rate increase notice to increase the cash available for the prepayments. CHAIRMAN POCOCK spoke on setting rates to cover the costs and how the rates are calculated. COMMISSIONER SCHNEIDER pointed out that the Board is looking at adding a positive power cost adjustment (PCA) to recover an overpayment to the customers and now some want to increase the rates more for a prepayment. CHAIRMAN POCOCK felt the UUT is the way to go and would avoid shuffling around to get revenue for the general fund. We need to call a tax a tax and deal with it accordingly.

Tom Darcy, councilman, explained the assumption is the utilities will come back to the city when the debt is paid but there might not be a city as the only assets are the utilities and if the city goes bankrupt, then what. Discussion followed on the prior prepayments made to the city's general fund and how those were done. Councilman Darcy suggested a bridge loan to get through the fiscal year and ask that it be paid back in installments by January 2015 or thereabouts.

COMMISSIONER SCHNEIDER felt that it is not the authority of this Board to impose a tax to give to the general fund. He could agree with a bridge loan to get through until an election could be held to ask the voters to increase the UUT.

Linda Kidd, councilwoman, explained that she's on the budget committee and they have the same problem each year. They've looked at the golf course and each department and all have been decreased as much as possible. She questioned which department(s) should close down if there's not the revenue. She would be happy to hear any suggestions the Board might have.

CHAIRMAN POCOCK questioned why there is an objection to raising the UUT. The council needs to call the tax a tax and put it on the ballot for a vote. He's concerned with using asset replacement funds but he's not opposed to a bridge loan until an election can run its course. He does not want to set precedence by using asset replacement funds and suggested sending this back to finance to find excess revenue. Councilwoman Kidd assured the Board that the budget committee is not overlooking anything but if something is not done, they will have to start cutting.

COMMISSIONER SULLIVAN expressed his concern on continuing to ask fewer employees to do more tasks in order to provide revenue to the city. That is setting the employees up for failure and disaster by asking them to do more for less pay (furloughs). COMMISSIONER MOFFITT pointed out that in looking at the audit, it appears the utilities are not doing so well. COMMISSIONER SCHNEIDER explained that budget revisions are on today's agenda and electric expenses are being decreased by \$312,000 so if the rates were set to cover that costs, the \$312,000 should be collected. Discussion followed on bankruptcy and if Needles is close to that point or if services should be cut.

COMMISSIONER SHAVER explained he would like to meet the immediate needs of the city but he's very much opposed to taking it out of the asset replacement fund. We have to survive until we come up with an answer and that answer is either cutting services or raising taxes. The golf course has been good for the city over the years but golf is a luxury and he questioned now if that is affordable. If the Board does agree to a prepayment where could we take it from other than asset replacement? City Manager Daniels responded the other option would be to take it out of projected cash of \$448,000 as shown in the next agenda item on the budget revisions. City Manager Daniels spoke on the budget and the city lasting until June 30, 2015 and then will go underwater absent some dramatic cuts. More discussion on the budget and revenues/expenses of the city.

Councilwoman Kidd remarked it's good to have this discussion as it helps everyone to understand the financial situation. She pointed out that if we close the golf course and/or recreation center those are one less thing to market Needles. Something else to consider is the El Garces and it's nice to have it enclosed but that will be another big expense on the city to maintain. The city needs to find a source of revenue.

CHAIRMAN POCOCK felt the options are: 1) approve the resolution as written; 2) send it back to staff to see if they can reintroduce it without taking it out of the asset replacement fund but that might not be viable after looking at the budget revisions; or 3) submit two proposals - funds other than asset replacement and/or

bridge loan to carry the general fund until a tax increase can be put on the ballot but he cautioned to make sure there is sufficient funds to cover the loan amount.

Councilman Campbell inquired if the same Board Members who previously helped would be available to meet to work on an increase in the UUT. We might also consider eliminating the franchise fee and including it all in the UUT.

COMMISSIONER SCHNEIDER MOVED, SECONDED BY COMMISSIONER MOFFITT, to table this matter for further review by the city council and staff to determine which way they want to proceed. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

MOVE
ITEM 6a)

CHAIRMAN POCOCK MOVED, SECONDED BY COMMISSIONER MOFFITT, to move item 6a) (presentation of the preliminary audit report of the Needles Public Utility Authority for the fiscal year ended June 30, 2013) as #2 on the agenda. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

PRSTN OF
PRELIM
AUDIT FOR
FY 2013

Lee Waddle, former engagement partner but now sitting in for Peggy McBride, and Linda Narciso, audit manager, Vasquez & Company, joined the meeting via conference call and went over the presentation of the 2013 audit results for the Needles Public Utility Authority which was provided in the Board packet.

Ms. Narciso pointed out that the Board might consider further increases in water and wastewater to fund the asset replacement funds and bring those fund deficits up to a positive fund balance.

CHAIRMAN POCOCK questioned the due-to the City of Needles of \$808,154. Ms. Narciso responded that is mostly the monthly operations of the NPUA by the City. CHAIRMAN POCOCK noted that once paid, this amount represents two years of prepayments to the city. COMMISSIONER SCHNEIDER explained that draws on the utilities are done monthly and questioned how we could end up with this huge due-to the city. Ms. Narciso responded that was the amount due as of June 30, 2013 and it might have been paid after the close of the fiscal year. City Manager Daniels agreed to look at what's been done since June 30, 2013 on payments to the city.

After the presentation by Mr. Waddle and Ms. Narciso, a discussion ensued on the draft financial statement for the fiscal year ended June 30, 2013 as presented.

COMMISSIONER SCHNEIDER referenced page 11 of the audit and the electric asset fund only increasing by \$200,000. Sylvia Miledi, finance director, noted that there were expenses out of that fund last fiscal year.

COMMISSIONER SHAVER MOVED, SECONDED BY COMMISSIONER MOFFITT, to accept the draft audit report of the Needles Public Utility Authority for the fiscal year ended June 30, 2013 as presented. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

APR MINS: COMMISSIONER SCHNEIDER MOVED, SECONDED BY COMMISSIONER MOFFITT, to approve the minutes of the adjourned regular meeting held January 21, 2014. Motion carried by the following vote:

Jan 21, '14

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

Feb 4, '14 CHAIRMAN POCOCK MOVED, SECONDED BY COMMISSIONER MOFFITT, to approve the minutes of the regular meeting held February 4, 2014. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER AND SHAW
NOES: NONE
ABSENT: NONE
ABSTAIN: COMMISSIONER SCHNEIDER

CORSPNDN: None

PBLC APRN: None

UNF BUSNS: CHAIRMAN POCOCK noted that once a date is decided on to correct the overcharge to the motels and hospital on the \$3 sewer asset replacement fee, the refund spreadsheet will be updated and brought back to the Board for review. He suggested using an April 1st date to implement the refund and agreed to update the spreadsheet and come back in March with the credits due through the end of March with the correct fee to start the first of April.

\$3 SWR AST
REPLACMT
FEE & PSBL
REFUND
FOR OVCHG

APPVD WTR CHAIRMAN POCOCK spoke on the variances of the monthly water service & WW CHG charges between his calculations and what is currently being charged which range

2011 TO '13 between -1.25% to 5.33%. He proposed that the monthly service charges be corrected according to his figures.

CHAIRMAN POCOCK MOVED, SECONDED BY COMMISSIONER SCHNEIDER, to correct the monthly water service charges according to the calculations prepared by him (Chairman Pocock).

Discussion followed on the city council public hearing currently scheduled for March 11 to increase the water asset replacement fee by an additional \$3 and incorporating the revised rates for approval at that time (all revised rates are a reduction to the customer therefore do not require a Prop 218 process). Staff was directed to prepare a resolution for Board consideration and adoption at the next meeting with the revised water rates.

Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: NONE
ABSENT: NONE

CHAIRMAN POCOCK noted that, other than the \$3 overcharge already dealt with, the sewer rates are acceptable and do not need to be revised.

PCA END
DEC 31 '13
& OVER-
REFUNDED
AMOUNT CHAIRMAN POCOCK explained that at the last meeting, staff was asked to look at the months the power cost adjustment (PCA) over-rebated and what it would take to use that same period. There was a 2¢ PCA reduction in billed amounts for over-hydro for June, July and August 2013 and if there was identical usage in 2014 we would collect \$198,502 towards the \$243,547 over-rebated.

COMMISSIONER SCHNEIDER questioned why there should be an increase in the PCA when it's not a power cost increase that's driving this but an accounting error. He pointed out that the PCA is to capture an increase or decrease in power costs and should not be used to correct accounting errors. This negative balance should be held off until the next electric rate setting and then captured as an operating expense as of October 2014. Discussion followed on collecting back the over-refund of the PCA from last summer. COMMISSIONER SCHNEIDER felt that the only way to be accurate to get the over-refund from the customers would be to go back through the bills and charge each customer their actual amount based on last year's usage for that time period.

GO BACK
TO BILLS
& CALCULT COMMISSIONER SCHNEIDER MOVED, SECONDED BY COMMISSIONER SHAW, to direct staff to go back to the billings for July through August 2013 to calculate the over-refund amount per account and bring this back to the Board for consideration of how to apply the charges to the customer accounts.

CHAIRMAN POCOCK questioned the authority to charge back for something close to a year old to recoup the over-refund. COMMISSIONER SULLIVAN

suggested holding off on any further credits that would be due until the \$243,000 is recovered. Kim Mitchell, business office supervisor, explained that according to the adopted terms and conditions, we cannot charge the customer for something that happened over six months prior; therefore, based on this information

MOTION COMMISSIONER SCHNEIDER WITHDREW his motion and W/DRAWN COMMISSIONER SHAW WITHDREW his second as the over-rebate is a dead issue.

CHAIRMAN POCOCK agreed to holding off any PCA credit until we can recoup the over-refund and/or consider adding it into the operating expenses but only on the over-hydro charge. He suggested looking at this again during the cost-of-living increase.

NEW BUSN: City Manager Daniels reviewed the major variances in the 2013-2014 budget (CONT.) revisions including \$1 million reduction in electric revenue and reduction in the water department for delayed/deferred capital improvements. Projected cash as of 2013-2014 June 30, 2014 is estimated at \$448,000 and adjustments have been made to the BUDGET asset replacement funds based on percentages. REVISIONS

COMMISSIONER SULLIVAN questioned if there is a reduction in projected electric revenue why is there not a reduction in expenditures for the purchase of electricity as well. A brief discussion followed why there is such a substantial reduction in electric revenues and the cause of such compared to the cost to purchase electricity.

Further general discussion was held on the 2013-2014 fiscal year budget revisions as presented. COMMISSIONER SULLIVAN explained that he has a hard time approving a budget that will produce a deficit as that's not what's suppose to be done.

COMMISSIONER SHAVER MOVED, SECONDED BY CHAIRMAN POCOCK, to approve the Needles Public Utility Authority revised budgets (NPUA, water, wastewater and electric) for the fiscal year ending June 30, 2014. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS MOFFITT, SHAVER, SHAW AND SCHNEIDER
NOES: COMMISSIONER SULLIVAN
ABSENT: NONE

BRD RQSTS: COMMISSIONER SHAW questioned when we purchase electricity does it vary or can we purchase whatever is cheapest at the time. Asst City Manager PURCH OF Brownlee responded that our buy-desk is Western Area Power Administration and ELECTRCY they have dedicated people that do that for us and we're only enabled with one company to purchase power, PowerX, and they've done a remarkable job. Discussion on the purchase of electricity to meet the demand at the cheapest rates.

