

BOARD OF PUBLIC UTILITIES

February 3, 2015

The regular meeting of the Board of Public Utilities held on the 3rd day of February, 2015, was called to order at 4:00 p.m. with CHAIRMAN POCOCK presiding and the following COMMISSIONERS present:

COMMISSIONERS SULLIVAN, MOFFITT, SCHNEIDER AND CAMPBELL

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

EX ABSNC COMMISSIONER MOFFITT MOVED, SECONDED BY COMMISSIONER
SHAVER SULLIVAN, to grant an excused absence to COMMISSIONER SHAVER.
Motion carried by the following vote:

A YES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SCHNEIDER AND CAMPBELL
NOES: NONE
ABSENT: COMMISSIONER SHAVER

Deputy City Clerk/Board Secretary Sallis administered the Oath of Office to those Board Members present.

APPROVAL COMMISSIONER CAMPBELL MOVED, SECONDED BY COMMISSIONER
AGENDA SCHNEIDER, to approve the agenda. Motion carried by the following vote:

A YES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN,
MOFFITT, SCHNEIDER AND CAMPBELL
NOES: NONE
ABSENT: COMMISSIONER SHAVER

APR MINS: None

CORSPNDN: None

PBLC APRN: None

UNF BUSNS: None

NEW BUSN: Linda Narciso, CPA, and Cid Conde, CPA, Vasquez & Company, joined the meeting via conference call.

PRELIM

AUDIT RPT Ms. Narciso reviewed the Presentation of 2014 Audit Results, Needles Public
JUNE 30 '14 Utility Authority, provided to the Board at this meeting. On page 7, she noted that even though no deficiencies are noted, the auditors listed recommendations that would help with management of the utilities. COMMISSIONER SULLIVAN questioned the second comment - Consider performing a periodic

review of the allocation of payroll and operating expenses to the Authority - asking why it was included as an area for improvement. Ms. Narciso responded that they felt that management should periodically review the allocation, however, there is no documentation that this is done.

An extended review and discussion was held on the Needles Public Utility Authority (NPUA) preliminary audit report for the fiscal year ending June 30, 2014.

COMMISSIONER SULLIVAN inquired as to if the auditors were only looking at what's in the NPUA lockbox and asked how they reviewed the cash and other assets on the city's side. Ms. Narciso responded that those are handled by the city audit in the city's funds but not in the NPUA audit. Further discussion on showing the NPUA cash/assets being held on the city's side of the books as an NPUA asset and so reflecting in this audit. Sylvia Miledi, finance director, explained that those are not NPUA assets as they have been transferred to the city and belong to the city to cover future expenditures. More discussion on the cash/assets held by the city for the benefit of the NPUA.

COMMISSIONER SULLIVAN commented that if an audit is being done that goes out to the bondholders to show the financial stability of the utilities, would we not want to include all assets so they have a true financial picture. COMMISSIONER SCHNEIDER agreed that all assets, including those on the city side, should be reflected in the audit. Finance Director Miledi asked if a footnote in the audit that those assets are held on the city side of the books would be acceptable. Ms. Narciso responded that the city side is not under the control of the NPUA and once those assets leave the NPUA, they become the city's responsibility. COMMISSIONER SULLIVAN felt that they should be reflected as a prepaid expense or some other way to reflect that asset of the NPUA. Ms. Narciso commented she will need to review the operation & maintenance agreement between the city and NPUA to see how it reads.

COMMISSIONER SULLIVAN continued to express his opinion that cash should be reflected in the NPUA audit which is being held by the city for future expenses of the utilities. Ms. Narciso agreed that could be added into this audit.

Review and discussion of the NPUA preliminary audit presentation continued. On page 11 of the presentation, COMMISSIONER SULLIVAN referenced the transfers to the city (under operating transfers) asking if a statement could be made that these funds are not needed in the asset replacement funds so eliminate the due to the city to which Ms. Narciso responded yes. Mr. Conde noted that electric is making money, however, water and wastewater are losses and are showing a negative net position.

COMMISSIONER SULLIVAN questioned how the auditors came to the percentage share on long term debt. Ms. Narciso explained that it goes way back but (former managing partner) Lee Waddle's understanding is that it is based on the fixed assets of each utility - water, wastewater and electric. Mr. Waddle did

not think the percentage share was unreasonable so he accepted it. COMMISSIONER SULLIVAN confirmed that the percentages were set by a former finance director, not by the auditors, to which Ms. Narciso responded correct.

City Manager Daniels confirmed his understanding from these discussions that the auditors will restate the assets of the NPUA to include the net balances in the city's electric, water and wastewater funds. Ms. Narciso agreed but will check the O&M agreement first and if there are not any objections to doing that, she will include it in the NPUA financial statement and email the revised audit to Finance Director Miledi who should share it with the city auditor so that both are consistent.

CHAIRMAN POCOCK referenced page 11 of the presentation noting that electric sales have dropped but power purchases increased substantially and he does not understand how that can be. Sales are down but the franchise fee and utility users tax (UUT) are higher. These numbers stand out as not matching up and they are hard to make sense. This is very frustrating for the Board Members. COMMISSIONER SULLIVAN explained part of the reason on the revenue was writing off about \$400,000 in April 2014 as that would have gone against revenue. CHAIRMAN POCOCK questioned if the write-off was added to revenue or against expenses. He felt that a number of that magnitude should have a footnote in the audit as an anomaly with explanation. City Manager Daniels agreed that the operating revenue total went from \$9.8 million in 2013 to \$9 million in 2014 which should drive the combined franchise fee and UUT down. Where the revenues have dropped, the taxes and fees have gone up.

CHAIRMAN POCOCK spoke on the auditing process determining whether too much or too little was transferred on the franchise fee and UUT, booking the actual amount, and booking the overpayment or underpayment. This should be done on each fee. The franchise fee and UUT may be reconciled but they do not get booked as transferred to the city side. COMMISSIONER CAMPBELL noted that the franchise fee is based on gross revenue and the UUT is only on billings/sales within the city limits, not on customers outside our corporate limits.

Discussion followed that the UUT should not be shown in the net revenue of the NPUA as it's not a utility tax, only a pass through to the city. CHAIRMAN POCOCK pointed out that the ordinance states that the UUT is levied against the user, and when it is added into the revenue and then the franchise fee taken on top of that, the utilities are paying a higher franchise fee because the UUT is being counted in the gross revenue. Finance Director Miledi indicated that the ordinance references per amount charged and each utility has its own line item to pay out. The ordinance says amount charged, not collected. COMMISSIONER CAMPBELL pointed out that the NPUA does not get paid by all customers and there is uncollected bad debt. More discussion on the UUT ordinance adopted by the voters and whether the UUT should be paid on collections or on what's charged/billed. CHAIRMAN POCOCK felt that the way the ordinance is worded, the UUT should not be going into the lockbox of the NPUA but a report filed with the city and a check remitted on what's been collected.

COMMISSIONER SULLIVAN suggested this might be cleaned up with quarterly UUT payments and requested this matter be brought back the first meeting in March with staff suggestions on wording and reporting compliance.

CHAIRMAN POCOCK noted that the sanitation revenue goes into the NPUA lockbox but is not shown as NPUA revenue but the UUT is shown as revenue to the utilities. COMMISSIONER SULLIVAN suggested using the model of sanitation for the UUT, which sanitation does not show up on the NPUA reports/ financial statements, only on the annual depository agreement for the transfer to the city.

After further discussion on the UUT, who it's imposed upon - every person, not the utility -, and who should bear the risk of bad debt, City Manager Daniels asked if it's the desire of CHAIRMAN POCOCK to continue this matter until a revised audit is received showing balances of the city water, wastewater and electric, otherwise, staff would like a recommendation to the NPUA to accept the audit. CHAIRMAN POCOCK explained that the Board Members brought up concerns they feel should be counted as NPUA assets and the auditors have agreed to look at it for next year but also agreed to footnote the NPUA assets being held on the city side.

MOT TO
APPV W/
FOOTNOTE
-- FAILED

CHAIRMAN POCOCK MOVED, SECONDED BY COMMISSIONER MOFFITT, to approve the audit with the footnote that the Board believes that net amounts/balances in city controlled funds derived from the utilities be shown as footnotes in the NPUA cash position. Motion failed by the following vote:

AYES: CHAIRMAN POCOCK AND COMMISSIONER MOFFITT
NOES: COMMISSIONERS SULLIVAN, SCHNEIDER AND
CAMPBELL
ABSENT: COMMISSIONER SHAVER

CHAIRMAN POCOCK requested this be brought back at the next meeting with the results from the auditors.

REVISED
STMT OF
POLICIES
RE ELECT
RATE SET

Asst City Manager Brownlee briefly spoke on the revised Statement of Policies dated February 2015 to recognize the impact of state global warming mandates and the impact of accounts receivable write-offs on the electric rate structure and the attempt to fully burden the cost of power. Discussion ensued on the cost of purchasing renewable energy credits (RECs), including that cost in the rate, and the estimate of bad debt to also be included.

CHAIRMAN POCOCK felt the power costs should be included in the cost-of-living adjustment in what was actually spent when looking back and new expenditures should be included in current costs. He was not sure bad debt should be included in the rate structure. COMMISSIONER SULLIVAN was not sure we had enough knowledge to include the bad debt at this point. COMMISSIONER SCHNEIDER clarified that we are only saying to include the bad debt in the non-power purchase costs but not saying what that amount will be.

CHAIRMAN POCOCK MOVED, SECONDED BY COMMISSIONER SCHNEIDER, to adopt the Revised Statement of Policies dated February 2015 as included in the Board packet. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN, MOFFITT, SCHNEIDER AND CAMPBELL

NOES: NONE

ABSENT: COMMISSIONER SHAVER

REPORTS: COMMISSIONER SULLIVAN briefly report on his attendance at the California Special District Association's (CSDA) Leadership Academy November 16-19, 2014. Education is very important to him and he learned some great things at this conference. He encouraged other Board Members to attend educational conferences as they become available and for staff to consider including it in the budget.

SULLIVAN ATTEND LEADRSHIP ACADEMY

CLARFCTN OF BASE USE CHG & EXCS USE CHARGE Kim Mitchell, business office supervisor, briefly explained the difference between the base usage charge and the excess usage charge in the NPUA revenues. Base usage charge in water is for the basic service charge for usage up to 1,000 cubic feet and in electric it includes the basic service charge plus hydro allotment at the lowest rate; excess usage charge in water is usage over 1,000 cubic feet and in electric it's over hydro allotment at the higher rate. COMMISSIONER SCHNEIDER felt that the budget numbers do not reflect that information and referenced the power purchases on over-hydro which are much larger than the budget of \$937,000. He questioned the two different line items noting that the budget does not care where the revenue comes from. Discussion followed on the line items that the utility revenues go into. COMMISSIONER SULLIVAN suggested that this might be looked at during the rate review.

CHAIRMAN POCOCK asked if the recycling program is changing making reference to a flyer that was distributed with the utility bills. Supervisor Mitchell responded no, that flyer has to do with changes in California laws. CHAIRMAN POCOCK was concerned that notice was sent out to our customers to put their recycling cans out on the same day as their regular trash so it appears we're going to one day a week for both recycling and regular service. It was the consensus of the Board that a revised notice be sent out with the correct information.

PENDING RQSTS City Manager Daniels explained that the Board requested that pending matters remain on the agenda until resolved/answered thus the purpose of this new item "Pending Board Requests".

MGR RPT City Manager Daniels reported on: 1) need candidates to fill the current vacancy on the Board; 2) hospital sewer line has been rebid as there were no responses to the first request for proposals; 3) information was included on the dais on the current drought conditions. Despite the rains we've had, Northern California is experiencing further drought and the snowpack is meager.

BRD RQSTS: COMMISSIONER SCHNEIDER asked about the proposed solar farm at the apartments on 'J' Street. He would like details on how they will interface with the grid because they won't produce all the power they need and will have to interconnect with the city's system. The apartment complexes are not master-metered but individual meters so how will the power be sent to the apartments? SOLAR ON 'J' STREET City Manager Daniels agreed to provide additional information on this project including a map. COMMISSIONER SCHNEIDER explained that a master meter policy was previously approved so some decisions will have to be made. COMMISSIONER CAMPBELL commented that if we take this power into the system, we want to pay the lowest rate.

RATE COM COMMISSIONER SULLIVAN would like to have the Board recommend/ approve sending a discussion of the franchise fee to the ad-hoc rate study committee to make a decision regarding the franchise fee. City Manager Daniels agreed to put a discussion on the next agenda of the committee.

STORM DAMAGE City Manager Daniels reported that the electric department has not finalized all work from the 2014 storm damage but once that's done, our insurance claim will be filed. Jack Lindley, electric line foreman, briefly addressed the Board explaining the work done to date to repair the storm damages and what still remains to be completed. He anticipates completion of all work within the next four weeks at an estimated cost of about \$300,000.

EX ABSNC COMMISSIONER MOFFITT requested an excused absence be placed on the next agenda.

IMPROVE SYSTEMS COMMISSIONER CAMPBELL explained that we have capitalized on a program to improve the utility systems and the audit should reflect those improvements being made.

ADJOURN: COMMISSIONER SULLIVAN MOVED, SECONDED BY COMMISSIONER CAMPBELL, to adjourn. Motion carried by the following vote:

AYES: CHAIRMAN POCOCK, COMMISSIONERS SULLIVAN, MOFFITT, SCHNEIDER AND CAMPBELL

NOES: NONE

ABSENT: COMMISSIONER SHAVER

CHAIRMAN POCOCK declared the regular meeting of the Board of Public Utilities held on the 3rd day of February, 2015, adjourned at 6:12 p.m.

ATTEST: _____
Chairman

Secretary