Call to Order: 5:00 p.m.
Roll Call, Council: West, Joyner, Gurrola, Hamilton, Woods

WRITTEN COMMUNICATIONS
The where no written communications.

ORAL COMMUNICATIONS
Pete McCracken, 657 Village Green, came forward and asked for clarification from Council. He asked whether candidates could campaign on City property, and whether they could wear their name badges or pass out campaign materials in City Hall.

The City Manager stated that wearing campaign buttons may be a normal part of dress, but handing out campaign materials may be inappropriate.

Mayor Woods stated that he could not see how it could be denied unless it was a polling place.

Mr. McCracken stated that he had been asked not to wear his name button in the Council Chambers.

The City Attorney stated that she knew of no legislative restriction, but if there was, she would make sure that everyone was aware of it.

Mr. McCracken stated that it seemed that there was no restriction except common sense.

Mayor Woods stated that it would be a violation of his personal freedom.

SCHEDULED MATTER
1. FINANCIAL STATUS REVIEW

The City Manager stated that at the Council meeting of October 22, 2002, there was a review of the progress on the budget to date, and direction was given for staff to undertake a financial review. The purpose of the direction was to review the status of the General Fund and provide a report to the City Council. The City Manager stated that the staff had worked diligently to that end, and he and Mr. Pyle, the Administrative Services Director, would like to split the presentation duties.

Mayor Woods asked them to hit the high spots for them.
Darrel Pyle, Administrative Services Director, stated that at the October 22 meeting he noted two lines of questioning that he wished to follow up on. One was the question of an audit of the City to determine the accuracy and credibility of the financial statements that they produce, and the second was some determining factor as to the financial solvency of the City of Porterville. Mr. Pyle then introduced the independent auditor for the City, Steven Pressley.

Steven Pressley briefly went through what he does as part of the audit process, and what value that added to the Comprehensive Annual Financial Report, which was in the back of their packets and labeled as CAFR. He stated that what they did was a Financial Statement Audit for the City, and they did their audit according to the rules set up for certified public accountants, with auditing standards set by the American Institute of Certified Public Accountants. He stated that with the City audit they were also required to use the guidelines set up by the U.S. Government Accounting Office, which was called the Yellow Book Audit. That audit went by a different set of rules called Generally Accepted Government Auditing Standards (GAGAS), and that was one of the requirements that they used to audit the City of Porterville. Mr. Pressley spoke about being an external, independent auditor. He stated that they determined that the financial information was fairly stated, based on materiality in compliance with generally accepted accounting principles. He stated that they were also scrutinized by the Government Accounting Standards Board (GASB), because it is a governmental audit. He stated that GASB put together the rules so they could come up with the Government Finance Officers Association, which the City had complied with the certificate for 14 years and received a Certificate of Excellence because the financial audit was also scrutinized for presentation, and a 200-page check list to make sure the disclosure is appropriate for the financial statements. He stated that the audit was certifying the management’s assertions in the financial statements. Mr. Pressley stated that they were able to rely on some internal control because certain aspects of the City’s activities, such as accounts payable, accounts receivable, payroll, and utilities accounts receivable have a strong segregation of duties. He stated that their information was obtained from inspection of relevant documents, observation of employee job performance, inquiries regarding policies and procedures, transactions and events, and confirmation of balances, transactions and with outside parties. He stated that they also performed analytical reviews to determine reasonableness of transactions and balances. Mr. Pressley stated that they felt comfortable relying on the internal control structure in the City. He stated that the types of things that they looked for which might fall outside of there reportable conditions which were significant deficiencies in the internal control. He stated that their audit report did not disclose any reportable conditions last year. If a reportable condition was taken and they stepped it up, there was a material weakness. He stated that at the end of the audit they ask management to give them a representation letter that states that management has supplied the auditor with all the information available, or anything that they have requested. He stated that they were also required to get an Attorney’s representation letter to make sure there are no liabilities outstanding from lawsuits.

Mayor Woods asked if it would be prudent, with the changes in accounting standards, for the external to meet at least once a year with the City Council with the exclusion of all staff.

Mr. Pressley stated that the financial statement and their report from the auditor’s office was addressed to the City Council, and he didn’t think it would be a problem to set down with them. He stated that SEC had different standards than governmental and privately owned businesses.
Mayor Woods thanked Mr. Pressley for his comments.

Mr. Pyle stated a sample of Mr. Pressley’s work could be found in the CAFR behind the tab labeled Financial Section.

Darrel Pyle, Administrative Services Director, stated that the second component of their discussion was focused on an analysis that would allow them to determine the financial status of the City of Porterville. He stated that analysis was done using a set of document published by the International City Manager’s Association (ICMA), which was included in the packet. He stated that on January 13, 2003, the City Manager had met with the Department Head group and conducted an all day staff financial review, the purpose of which was to provide an opportunity to assess the current financial status of the City and the impact of other governments, and to outline action plans to address financial issues. Mr. Pyle then reviewed the Notes from the January 13 meeting which addressed actions to be taken over the next two years to address State budgetary deficits, which could result in a General Fund loss of $971,000 for year one, plus a loss of $85,000 in street congestion mitigation and $24,000 in Redevelopment Agency ERAF shift. And in the second year, 2003/2004, the estimated General Fund loss could increase to an impact of $1,840,000, with a continued loss of street congestion mitigation and Redevelopment Agency ERAF monies. Mr. Pyle stated that the Police Officer Standards and Training (POST) monies to support training activities could also be curtailed.

Mr. Pyle stated that staff developed the following action plan, which would be brought back to Council for ratification:

1. Effective the beginning of February, all positions should be frozen until May 7, 2003, except for positions essential to maintain the public’s health and safety, and to comply with specific contractual obligations. Hiring within these position categories may be authorized only on a finding of fact by the City Manager. During the period until May 7, 2003, additional information should become available regarding the actions to be taken by the Governor and Legislature. Also, the City management should formulate a specific program for presentation to the City Council for any extension in the hiring freeze during the 90 day period.

2. Beyond the hiring freeze, only essential purchases should be made, including travel. Regarding this limitation, an exception shall be basic travel by City officials to Sacramento and other areas to provide information and clarification about the impact of potential budgetary actions upon the City of Porterville and the greater Porterville community.

3. A staff task force should be established consisting of the Administrative Services Director, Police Chief, Fire Chief, and City Manager (ex officio) to address the many issues associated with the potential curtailments in monies from the State. Their purpose shall be information and advocacy in appropriate forums.

4. Providing objective information for the employees was defined as a crucial activity. The City will continue to use its employee newsletter to outline for the City’s workforce the
City’s understanding of actions proposed and approved by the Governor and Legislature, and their potential impact upon City programs.

Mr. Pyle then reviewed the Financial Analysis as it relates to the General Fund Financial Report from June 30, 1999 to June 30, 2003 using the ICMA model. He stated that if there were any other indicators the Council would like to see completed, just let them know. He then went over the trends. Mr. Pyle stated that the important observations from the review of the financial factors were:

1. Goals have been outlined for the various financial factors which have been presented. The recent announcement by Governor Davis that basic City revenue sources may be curtailed moves the entire financial equation back requiring the City to consider major shifts in service provision and the financial allocations to support them. Therefore, until this “shock” to the financial system is resolved, establishing a time-line to achieve financial goals may not be efficacious. Once, however, the system’s balance is re-established, financial goals should be approved by the City Council to lead and measure financial progress. As the current Executive announcement is exemplary, the State Finance System is broken: We must demand that it be reformed. They would be watching the Governor’s budget very carefully over the next two weeks.

2. Currently the City departments are operating below budgeted expenditure amounts. The conservative spending by the departments is the major factor for financial stability during the 02-03 Fiscal Year.

3. A Fiscal Impact Analysis will be beneficial to determine the financial impacts of development and the desirable ratio of residential, commercial and industrial projects, and annexations. Understanding these dimension is important in planning the City’s future.

4. The City has relied upon the Cost Allocation Model to define user fees. The model was first developed a decade ago, and it would be very beneficial to compile a new base document for allocating cost and establishing fees.

5. The City should correspond with the Courts to assure that booking fees and drunk driving fees are assessed.

Mr. Pyle stated that the last thing they did as part of the financial analysis was look at strengths and weaknesses in all funds. He stated that a number of funds have sustained deficits or appear imbalanced in their ability to meet future financial commitments. In some instances it is a lack of resources, while in others it may be short-term cash flow issues. He stated that the City Manager would review these funds.

Mayor Woods asked about Model on debt service.

The City Manager stated that as long as they were able to maintain development in the community, there should not be an issue as developer fees paid the debt service. He stated that if the fees did not continue, then they would have to define strategies to address it.
The City Manager stated that what they were presenting tonight was not necessarily a request for action that night, but to develop a foundation and the basic analysis to be used over the next several quarters in terms of developing the budget, and defining and gaining Council support for action plans.

The City Manager then reviewed the following funds and action plans:

**Redevelopment:** This year the fund has a $96,000 deficit which is anticipated to worsen in the 03-04 FY as a result of the state budget crisis and other factors.

Once the actual impact of property re-valuation is determined, staff will develop an action plan to deal with any deficit that will occur. Staff will note this, and as they understand the direction the Governor and Legislature are moving in terms of the ERAF shift, and the impact of reassessments of properties, a action plan will be brought back to the City Council.

**CDBG:** The Community Development Block Grant Program has short-term cash flow deficits during the year, but an increased allocation from federal monies in FY 03-04 will support activities and goals consistent with Redevelopment and enhance the Youth Center program, and the Murry Park renovation for the coming fiscal year.

**Zalud Estate:** Each year the endowment to support the house erodes by $15,000 to $18,000. Options to address this erosion must be considered and a course undertaken to address the matter. The Parks and Leisure Services Director will present the issue to the Commission for consideration and recommendation to the City Council. A series of options in this regard have been formulated to date.

1. A partnership with the Museum or other non-profit should be considered.
2. A support group could be developed to raise funds for the preservation of the House.
3. Also, a lease may be let on a portion of the facility (maybe the carriage house) to establish a business activity compatible with the preservation of the estate.

An action plan will be brought back for the Zalud House as well.

The Administrative Services Director addressed the Golf Course.

**Golf Course:** The Golf Course over the past decade has lost money at the rate of about $17,000 annually. The major consequence from the sustained loss is that the Golf Course may be determined to be “not a going concern “. The activity may then not continue as an enterprise, but instead an aspect of the City’s General Fund group which should be annually subsidized.
1. City rate adjustments last year should partially address the issue, but the long-term consequences must be addressed.

2. Possibly a portion of the enterprise determination may be based upon a realistic valuation of assets. For example, the land for the entire enterprise is valued at only $102,048. This ability to reevaluate assets will be researched by City staff. Nevertheless, even if land values may be adjusted to market values for the use, a long-term financial strategy for the golf operations must be undertaken.

3. Vital to developing such a strategy is compiling comprehensive information. Currently, the City has undertaken an analysis for a new golf course that will provide much comparative information on other municipal golf operations in the Valley.

4. When the Council considers a golf business plan, the consideration should be comprehensive, and should include the full array of options. In this regard, the City should investigate contracting out the management of the current golf course.

Mr. Pyle stated that with the current Fiscal Year they will begin the implementation of GASB 34, which will alter forever the presentation of the CAFR. After June 30, 2003, they may be able to adjust the values of the assets in the Enterprise activities.

Mayor Woods questioned whether leasing the golf course would be affected by the underlying deed restrictions.

The City Manager stated that the golf course would remain a recreational purpose, with a management contract as a consideration.

The City Manager addressed the Airport.

Airport: The projected 02-03 FY news is good for the Airport, for there is a probability that cash flow for the year will be positive. This will be the result of reducing costs greatly; A very robust revenue year from fuel sales; The sale of lots at the industrial park; and the coverage of toxic substance remediation costs with COP monies. It is not likely these factors will be sustained. There are very significant challenges in establishing the business plan for a long-term financial recovery.

1. We are now completing a new Airport Layout Plan and working with the users to coordinate this. This will be presented to the Council as will a long-term vision and business plan.
2. Most probably, the future of the Airport will depend upon very close cost containment and the development of a significant enterprise which will through some method cover the cost of the Airport’s operation, maintenance, and improvement.

The City Manager stated that a major wrinkle in the Airport was that a major tenant, the California Division of Forestry, which could be closing or at lease realigning their operations. He stated that this was another item that they would have to be bringing an action plan back to assure that they retain a positive direction.

**Sewer Operating:** Because of impact fee payments, it appears that the fund will be positive during FY 02-03. The long-term solvency of the fund depends upon actions taken with the Wastewater Treatment Fund. Support for the Sewer Operating Fund should be considered with the upcoming review of the Wastewater Treatment Fund.

**Wastewater Treatment:** This fund during FY 02-03 should decline from a beginning cash balance in excess of $1,000,000 to a balance of less than $100,000 during the Fiscal Year. This is a result of capital spending for vital improvements and securing property upon which to discharge effluent. The key to this fund is adjusting rates during the 02-03 FY.

The City Manager stated that they should commence next month, or shortly thereafter, on the Council’s consideration of the fee adjustments.

Mayor Woods stated that it was important to mention that without the expenditure of those capital funds, they would be in position of no longer being able to issue building permits.

The City Manager stated that the operating surpluses they had in the General Fund were basically dependent upon continuing building activity in the community. He stated that what happened in the Sewer Fund was absolutely vital to the overall financial health of the community and their ability to provide services generally.

Mayor Woods stated that it was important that people understand that the purchase of the agricultural property was not a whimsical decision, but was imposed upon the City. It was key part of their continuance as an effective government in the community.

Mr. Pyle then addressed Bonded Capital.

**Bonded Capital:** The fund covering bonded capital is the clearing account for COP monies. Because of requirements for clearing funds, it carries a deficit, which will be addressed with COP monies.
1. Currently, a rate analysis is being completed by the City’s consultant. Initial meetings to review the conclusions and to define a solution are being scheduled for March, 2003.

Mayor Woods stated that they were looking at a lot of ‘ifs’ in the future, and if interest rates start swinging up, how much of the COP portfolio was still eligible for arbitrage.

Mr. Pyle stated that the construction balance was declining as projects move forward. He stated that they do receive some interest income on the funds as they set in the account, and with interest rates down there is no arbitrage issue, but if rates improve prior to the completion of the project and the exhaustion of the funds, they would have to do an arbitrage calculation to determine if a refund of any ill-earned interest was required. He stated that they do that analysis every five years on all outstanding balances. He stated that the analysis should take place again in 2004/2005.

Council Member Joyner asked about the golf course property, the lease and the use of the property as relates to restrictions.

The City Manager stated that they were undertaking a 18-hole golf course review, and when that came back it would include an analysis and review of the current golf course and operations. He stated that all the information would be available at that time as they would need to develop an overall strategy.

The City Manager stated that Council asked for an indication of financial factors relative to the General Fund, defining some evaluation of the factors, an analytical presentation of them, some evaluation of them, and a suggestion of goals. He stated that they had provided that and carried that to other funds where staff thinks there are significant issues that need to be addressed. He requested the ability to use this as base information over the next one or two quarters as they develop a budget to work within the defined directions and action plans in each area as defined.

Mayor Pro Tem Gurrola clarified that the last increase to wastewater was back in 1992, and the proposed increase would be back in March.

The Council took a recess from 6:03 p.m. to 6:11 p.m.

2. CONSIDERATION OF UNDERTAKING AN AUDIT OF TRANSPORTATION OPERATIONS

Recommendation: That the City Council:
1. Direct staff to work with Sierra Management to implement Option 1, and
2. Authorize the allocation of funds as stated in Option 1.

The City Manager presented the staff report with Option 1: The first option is to engage an auditor to undertake a review of Sierra Management’s records in the format of a normal enterprise fund review; to coordinate with Sierra Management to accomplish the audit; to allocate $4,000.00 from the Transit Fund to cover costs; and, to establish the goal of providing the audit to the City
Council by April 1, 2003. The audit would be provided to the Council for information and to understand the mechanics of Sierra Management’s service agreement; and, Option 2: The second option would be to undertake option 1, but to provide Sierra Management with an automatic extension of the contract for transit services until June 30, 2005.

After discussing the reasoning for auditing this contract, Council declined to take any action at this time.

Disposition:  No Action Taken.

3.  RESOLUTION URGING THE CALIFORNIA LEGISLATURE TO REJECT THE GOVERNOR’S PROPOSED SHIFT OF LOCAL VLF REVENUES

Recommendation:  That the City Council approve the proposed Resolution and authorize City staff to forward the resolution to our legislators.

COUNCIL ACTION     

MOVED by Council Member Hamilton, SECONDED by Mayor Pro Tem Gurrola that Council approve the proposed Resolution and authorize City staff to forward the resolution to our legislators.

Resolution 13-2003

Ayes:     West, Joyner, Hamilton, Gurrola, Woods
Noes:     None
Abstain:  None
Absent:   None

Disposition:  Approved.

ORAL COMMUNICATIONS

None

OTHER MATTERS

None

ADJOURNMENT

Council adjourned at 7:19 p.m. until January 29, 2003, at 6:45 p.m.

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Georgia Hawley, Deputy City Clerk

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Gordon T. Woods, Mayor