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Finance Committee Discusses State of City Finances – transcript of meeting

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The Desert Hot Springs Finance Committee met Thursday, July 11, 2013 at 6 p.m. at the Henry V. Lazano Center in Desert Hot Springs where committee members heard a presentation by Michael Bush of Urban Futures and discussed the Desert Hot Springs budget for 2013/2014 fiscal year.

The following transcript is a summary produced from an audio recording of the meeting. Where quotes appear on a comment, the transcription is an exact quote otherwise comments are summarized.

The meeting was attended by the finance committee members and the general public. Also in attendance were members of the Desert Hot Springs Police Officers Association and city administrative employees. Following is the transcript.

Michael Bush – The city has been operating under a deficit for many years. It has operated using one time monies but the significant one-time money has stopped. In addition, funds it received from the former Redevelopment Agency are gone and with the drop in property values the city has seen a large drop in the property taxes it receives from real estate. The city had substantial one-time money last year in the form of a payment from the CPV Sentinel power plant. There is nothing on horizon to match that and no more one-time money coming in soon enough that can be counted on for this year or coming years.

Michael Bush of Urban Futures

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Michael Bush of Urban Futures

“I don’t know if council saw the five year report that I produced. That report details the financial problems facing Desert Hot Springs.”

There is an ongoing process to use administrative fees from capital projects to pay for salaries. That is not a good situation. Counting on administrative fees from capital projects to cover salaries is a sure sign of a problem. It is a sign the financial hole in the city will get too big to fill. Next year you have a huge problem but without the one-time money that has come in.

“There is not a plan to grow. There is a plan to hope, but not a plan to grow.”

“Twelve months from now you have a big, big problem.”

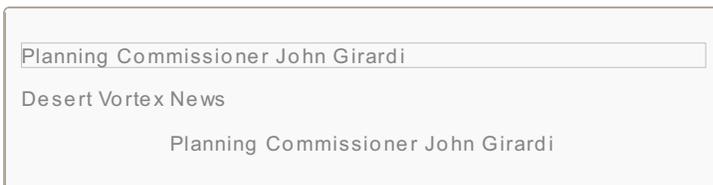
Mayor Yvonne Parks – Where have you seen the latest home assessment valuations in Riverside County go up 3 percent and we are up 6 percent. Our increased valuation is twice the county. We are up 6%.

Michael Bush – We’ve still got a long way to go. You need a lot more than 6 percent. I think you are seeing growth there but it is not going to come in fast enough.

You also don't have a lot of building permits being pulled. They are also an indicator of what you can expect in the future. If there are not a lot of permits being pulled then you can hope for something but that is all you have is hope. But permit applications are flat. That is the reality. And there is a lot of volatility that presents risks.

John Gerardi – It is obvious we have a short-term *and* long-term problem.

Michael Bush – To start work on the short-term problem the city council must get information soon. If you wait too long to report to the council and the council is just hoping for next year it will be too late.



John Gerardi – It sounds to me we have to figure some way out of this, this year.

Tim Brophy – What I think we need is for the city to be living a little bit more within our means and we can't ignore that the city will also need new revenue.

Michael Bush – There are no new taxes going to come in soon enough to address the problem in the next twelve months. In the long-term if the city does not make cuts there is no other way but more taxes.

Joe McKee – The residents of this city are already paying a lot in taxes.

Mayor Yvonne Parks – Where would you cut?

Joe McKee – It is obvious the situation calls for deep cuts.

Mayor Yvonne Parks – Where would you cut?

Joe McKee – Everywhere. It is obvious that is what the situation calls for.

Mayor Yvonne Parks – But we have already cut lots of employees.

Michael Bush – All that was cut were the low-paid employees.

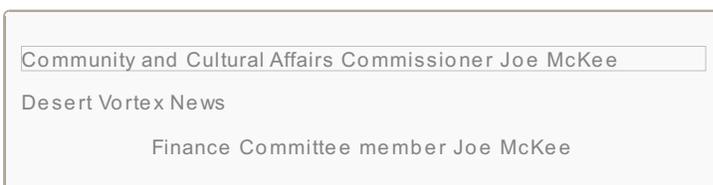
Joe McKee – Exactly. Why are we paying our people so much money? This report is full of red flags. We've seen this for five years and all we've done is use one-time revenue with only minor cuts and then just hope. If we had addressed this problem when it was first reported then it would be a much easier problem to deal with today.

Michael Bush – That is correct. You are reaching a point where the city will not be able to sustain itself and taxes will not be enough to make up the difference.

It is harder to catch up. Making the situation worse, even if an opportunity came to the city it will not be able reach out and grab it because it won't have the resources to be able to grab it. Some options cost money to implement and if you don't have it then the option is not available.

Dean Gray – We have to do something radically different and do it fast. This committee said to cut salaries but the present administration instead went out and increased benefits for employees.

Councilwoman Jan Pye – Last year we had the employees pay half their benefits so we did cut.



Dean Gray – But you also gave them a raise last year to offset what the employees had to pay extra for benefits. It was not a cut last year. This year you increased the city costs for employee benefits. You raised those costs by 3.75 percent. Even the city manager gave you that number when you increased employee benefits at the last council meeting.

Mayor Yvonne Parks – But the city employees have not had a raise since 2005.

Richard Cromwell (question to Mayor Parks and Councilwoman Pye) – Besides the increase you just improved for the one group of employees, are there discussions taking place with other employee bargaining units? Has the council given direction that concessions are needed? Has that happened? Has council directed the city negotiator to get concessions.

Councilwoman Jan Pye – I can't answer that because we are in closed session on that.

Richard Cromwell – Management has to cut 10% across the board, maybe 20%. Mr. Daniels giving up 10% is not going to do anything to help the situation. I see this report and ask why this was not acted on in April. Here we are six months later and all we are doing is still talking about it. You have experts here and you are not following their recommendations. Why am I coming here spending time and reading this material if you are not going to act. I hope I am not being too harsh. I see people around this table nodding in agreement with me so I guess I am not being too harsh.

Council member Jan & Mayor Yvonne Parks

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Council member Jan & Mayor Yvonne Parks reacting to questions about the budget.

At this point Councilwoman Pye turned to Mayor Yvonne Parks and asks if she wants to respond. Mayor Yvonne Parks, sitting with her hands folded in front of her on the desk and with the corner of her lips turned down in a disappointed frown said no.

There was an awkward period of silence and then discussion resumed.

Mayor Yvonne Parks – I hear everything you're saying but the public is telling us that public safety is number one. What I want to hear from you based on the fact that Prop 189 has passed and that we don't have enough officers now – so what do you do?

In answer to that question, several on the committee said in unison you have to make choices. If you don't do something you are going to face bankruptcy.

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Laundry business owner and landlord Tim Brophy

Tim Brophy – We have a short-term problem but you also have to look where you want the city to be down the road. The mayor made a very good point. The residents want more public safety. I just want to encourage everyone that with these elected official present in this room that we can't just cut. We have to look at the revenue side. I want to also encourage that we are not going to right this ship on cuts alone.

Joe McKee – I'm going to address the Mayor's comment that city employees have not had a raise for five years. If you look at salary surveys in the Coachella Valley for all professions you see that public sector employees are by far the highest paid. Meanwhile the private sector has taken pay cuts. There used to be a day when you accepted lower pay in government for a good retirement and excellent benefits. Now public employees are by far the highest paid and in this city and as a matter of fact they are higher paid than in other Coachella Valley cities.

Dean Gray – We can't raise taxes. I've been walking the streets, talking to business owners in our city and I can

tell you this. If anyone is considering that the solution for bad spending is raising taxes I can assure you that there will be a war. I will also tell you this. Nobody in America has ever won an election by saying “Elect me. I’m going to raise your taxes.” So if anyone thinks that that the solution for fixing these mistakes is raising taxes, well, think again. There are less expensive ways that we can solve these problems but if our leadership, this administration, the three people in charge of this city are only willing to tell staff we are going to give you more money and not willing to tell them they have to take a cut if they want to keep there jobs, the problem won’t be solved. Mr. Brophy mentioned a minute ago about righting the ship. There were people on the Titanic that partied because they believed the Titanic could not sink. Some saved themselves by hopping in the boat and rowing away. Some good people stood firm really believing that there was no way that the Titanic would sink. They went down. What’s next for Desert Hot Springs?

John Gerardi (addressing Mayor Yvonne Parks and Councilwoman Pye) – I agree with these people. But I don’t see any willingness by the present city administration to consider any new ideas.

Mayor Yvonne Parks – “We have talked about this for years.”

John Gerardi – “You don’t have any more time to talk about it. The council has to make some tough decisions. It is time to [pause] I can’t use the expression I want to use. It is time to act.”

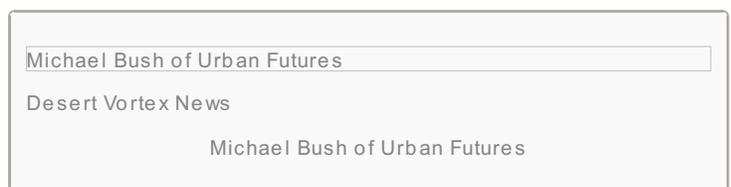
“I don’t know if council saw the five year report that I produced. That report details the financial problems facing Desert Hot Springs.”

- Michael Bush of Urban Futures speaking before the Finance Committee.

Richard Cromwell – It is time now to make tough decisions. If you are looking for revenue, who owns the vacant land and is not paying their fair share on the parcel tax? There is money there but you won’t go after it. By far a majority of those people that own that land are not voters. You don’t even have to worry about there being a voter backlash from them.

Mr. Bracken [city economic development consultant Michael Bracken] thinks we are going to be just fine if we just wait until June 30 [2014] but nobody in this room believes that.

Michael Bush – One solution is for the council to tell city management to implement priority based budgeting. The council is going to have to get into a micro level. This is contrary to what I have heard said many times that the council should not micro manage. In this situation the council is going to have to get into a micro level.



Joe McKee – There are towns that have a much lower tax burden per person. Once you look at like cities you see we are so out of balance in comparison. If you look at Palm Springs and Palm Desert for comparison then you are going to say that we should pay \$250,000 a year for a city manager. But if you look at cities that are similar in size, demographics and makeup to our city the pay for a city manager will be \$150,000.

At this point the meeting came to a close with a concluding remark by Mayor Yvonne Parks. “Like Joe McKee said, we have to come up with a plan.”

A final word was allowed by Councilwoman Jan Pye who was chairing the meeting. “Mr. Gray, I will give you the final word.”

Dean Gray – We’ve gone through this exercise several times over the past nine months and we keep coming

back to the same thing. Nothing has changed. Some said we are wasting our time. The administration is not doing what this committee says needs to be done. This city is in trouble. To fix the problem we cannot be in denial. Is the council willing to tell the city manager his pay has to be reduced to \$150,000 a year? Is the city council willing to tell Mr. Bracken he is a nice guy, we love him, he is a lot of fun to party with, but we are letting him go for one year? Can this city survive without Michael Bracken for one year? Both of those proposals total \$200,000 towards solving the problem. That \$200,000 saved won't solve the problem but if we use the same approach we will find another \$200,000 and then \$500,000 and eventually a million dollars. This city needs that. We deserve that. We have a city manager that has brought us to this point, to this fiscal crisis while paying him top dollar and now as we try to work this problem he is gone on vacation. This city administration and the three person majority that controls the city has to recognize the problem and be willing to act on it.

Meeting Adjourned at 8:06 p.m.

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