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Desert Hot Springs faces \$3M shortfall

Desert Hot Springs City Council to discuss 'dire' financial report, options - including bankruptcy - at special meeting next week



The Desert Hot Springs City Council and city staff review the fiscal year budget 2013-14 during a three-day workshop in May. / Desert Sun file photo

DESERT HOT SPRINGS — Interim Desert Hot Springs City Manager Bob Adams said Friday that city leaders were warned weeks ago that the city faced significant financial problems in the coming fiscal year.

However, city staff did not immediately provide city leaders with specific numbers, opting instead to hold off until they knew for sure how bad the situation would be, Adams added.

“We could tell there were problems with the budget, that the numbers were not what we think they are,” he said Friday. “We discussed this in a meeting with the finance committee in early October in a joint meeting with City Council.”

He added that city staff did not know for sure that there would be a projected shortfall of more than \$3 million until “three to four weeks ago.”

The shortfall was made public Thursday when staff posted a financial report online as part of an agenda packet for a special City Council meeting set for next Tuesday. The report projected a “dire” fiscal year 2013-14 budget, which showed the city in the red by \$3.07 million.

However, on Friday, a Desert Sun review of those numbers with Councilman-elect Joe McKee, who is also a member of the city’s finance committee, found an inconsistency in the report’s figures, which increases the projected deficit to \$3.37 million.

McKee said “they must have made a clerical mistake,” adding that he is worried about the coming years, which could double the city’s projected debt.

He said the city needs to “work the problem and fix the issues and then we can figure out who is responsible.”

“We don’t have time to recriminalize — we have a city to save,” he added.

Besides McKee, Mayor Yvonne Parks is also on the finance committee.

On Friday, Parks blasted city staff.

The figures, Parks told The Desert Sun, do not match the balanced figures that City Council members were given in the monthly budget updates.

“This blindsided me horribly. I had no anticipation of this. None, whatsoever,” she said.

“What does that say about your city staff? That they don’t care. They just put you out there and let you get blindsided. ... It’s unforgivable.”

City Council is expected to meet on Tuesday in special session to discuss these new projections.

According to the financial report that will be discussed during the meeting, the city is expected to run out of “general fund cash by March 31, 2014.”

“The city will need to take steps to declare a fiscal emergency very soon,” the report states. “Staff has issued a ‘Notice of Public Hearing’ for a Fiscal Emergency Public Hearing to be acted on at the regular City Council meeting on Nov. 19 ... if the City Council should decide to do so. If not, the public hearing may be continued to a future meeting.”

The report also contains information from City Attorney Steve Quintanilla about municipal bankruptcy.

During the past several years council has “been told by city staff this is going to be okay, and certainly when you have professional staff you want to believe your staff,” said Adams, who took over as interim city manager in early September. “I did not choose the current staff. I inherited them.

“We all need to understand the numbers,” Adams said, adding that “it’s going to require a re-education process” for City Council.

Desert Hot Springs previously declared bankruptcy in 2001. If it were to declare bankruptcy again it would join other California cities such as Stockton and San Bernardino, which have also found themselves in dire fiscal straits in recent years.

Stockton, a city of 300,000 people about 80 miles east of San Francisco, declared bankruptcy in 2012 in the face of nearly \$1 billion in debt. At the time, it was the largest city to declare bankruptcy in U.S. history.

Also, in 2012, San Bernardino, located 60 miles east of Los Angeles, filed for bankruptcy after learning it faced a \$46 million deficit.

In Desert Hot Springs, its shortfall is being attributed to decreases in property and sales taxes.

The city spends most of its operating budget on its police department and its contract with the Riverside County Fire Department, Adams said. What cuts will be made or how the city will solve its fiscal crisis is up to City Council, he added.

“It is not a foregone conclusion that bankruptcy will be declared, but this council is going to have to get serious about cost-cutting,” he said. “The problem is a bloated city hall, and it includes every salary, from police to city staff.”

The city’s attorney said the report on the city’s website contains just part of his summary. The full report will present options the city can take with regard to its financial situation, with respect to putting a tax on the ballot, altering labor agreements and/or reducing benefits.

On Tuesday, he’ll give a full report about the legal procedure. Quintanilla said he found out Wednesday that Adams had called a special study session for Tuesday to talk about the city’s finances.

“I want a total explanation,” Parks said Friday.

“There’s a whole bunch of stuff in there that I question,” she said. “I want a total explanation of why you can go from a \$4.1 million reserve and in six months you have a fiscal crisis, a fiscal emergency, a potential for bankruptcy. What happened? I don’t get it.”

Councilman Russell Betts said it wasn’t a surprise.

“We had an urban futures report that was released back in May,” Betts said. “We have had this information, and we covered it in several finance meetings.”

“This wild spending has been talked about for two years now.”

Clearly, there were some serious problems with how the city managed its budget, said Betts, citing the Wellness and World Music Festival, in which the promoter received \$250,000 in public funds and never held the event.

“We also have 15 city employees with compensation packages of more than \$200,000,” Betts said.

However, the important thing for the public to know is the city has a new council that will be looking closely at the financial situation, Betts said, adding “this is not the time for finger-pointing.”

Councilman Scott Matas also said he was “quite upset.”

If the city does have to make cuts, “it is not going to be cutting public safety,” Matas said. “I am disappointed in the staff report, but I believe we can find ways to cut so that the city won’t have to file bankruptcy.”

Riverside County Auditor-Controller Paul Angulo said he was very disappointed the City Council didn’t take action earlier to head off the bankruptcy scenario it’s now facing.

“The city’s dire fiscal condition did not happen overnight,” Angulo said. “It is the responsibility of the city’s leadership to anticipate and adjust to lower revenues accordingly to minimize its service impact. I call on the city council to work collaboratively in the best interests of the people and to take immediate action to prevent a disruption to law enforcement and other critical services to the community.”

This is not the first time the city has been in financial trouble. In 2001, the city filed for Chapter 9 bankruptcy when faced with \$8 million in estimated debt.

Michael Bickford, who has owned the Miracle Springs Resort & Spa in Desert Hot Springs for 15 years, said he lived through the city’s bankruptcy in 2001.

“Nothing surprises me anymore with city government,” he said. “I’ve been very fearful of city government and its constant spending ... they keep trying to tax us more.”

Bickford, who also owns rental properties in the city, said he plans to attend the special city council meeting on Tuesday.

“We need more citizen participation,” he said, including expanding the citizens on patrol program and recruiting volunteers to help out with the city’s workload.

Councilman Adam Sanchez told The Desert Sun that he hadn’t seen the budget report, but he had read the paper’s news coverage of it Friday morning.

He accused Parks and city hall of withholding the information until after Tuesday’s vote, in order to protect Parks’ incumbency.

“I feel the mayor is working with city staff to cover this up until after the election,” said Sanchez, who is just 27 votes shy of unseating the mayor with 140 ballots to be counted. “I’ve always voted no on the budget because we kept overspending. It was part of my campaign.”

Sanchez said that the city manager and staff knew about the budget projections before he left for a several-week trip.

“There’s just no way. Common sense is they knew about it a month ago,” he said. “I can’t see how we can trust him as we move forward in the process.”

Desert Sun reporters Denise Goolsby and Erica Felci contributed to this report.