City of Corning

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THE CORNING FRIDAY NOTES

TO: MAYOR AND COUNCIL

FROM: CITY MANAGER JOHN L. BREWER, AICP

DATE: AUGUST 28, 2015

SCHEDULES:

John Brewer: I will be off work and out of the County on August 27th & 28th; I have appointed Police Chief Don Atkins to act on my behalf for these two days. **September 10th – 20th** I will be on vacation; I will appoint an Acting City Manager for this period prior to this absence.

General Fund Ad Hoc Committee:

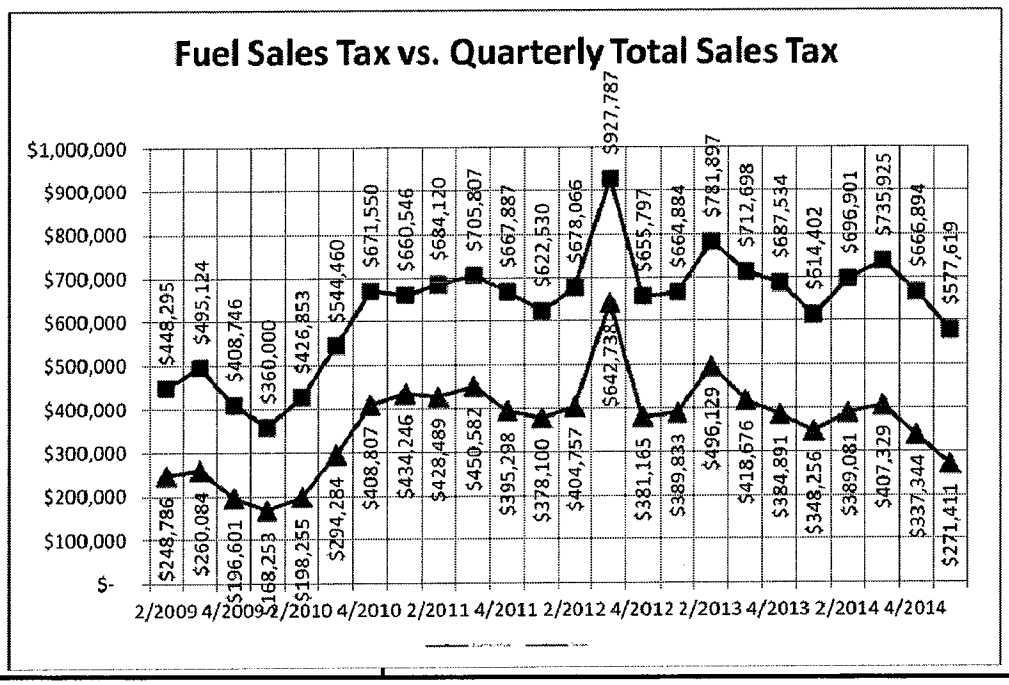
They will meet again prior to the September 8th City Council meeting at 4pm, the Agenda will be posted on the City's website.

CITY MANAGER:

HdL Conference Call:

I spoke with Howard Longballa of HdL on Monday to discuss the details of our 1st Quarter 2015 Sales Tax data. The news was pretty much what was expected. Sales Tax for the quarter was down 4% below what it was for the first quarter of 2014, and that was down 4% below what it was for the first quarter of 2013. One glimmer of positive information is that sales for categories (Autos, Restaurants, etc.) other than "Fuel" were generally up.

However, the sum of those categorical increases can't overcome the decrease to the bottom line caused by reduced fuel sales. The reduced sales are not due to decreased sales volumes, but are directly related to the reduced fuel prices. The price of oil has slipped below $40 a barrel. That's down from a high of $140 in 2008.



Fuel Sales were down 15% from the 1st Quarter of 2014, and that was down 9% below the first quarter of 2013. In terms of dollars, fuel sales tax receipts for the 1st Quarter of 2015 (shown as triangles on the chart to the

right) were below $300,000 for the first time since the 3rd Quarter of 2010. What's most bothersome is that the experts don't know how long oil (& fuel) prices will remain low. HdL projects little movement this fiscal year (0.6%), but some cost increases in FY 2016-2017 (6%). Also, see the attached Yahoo© article titled "What cheap oil means and where do prices go from here?"

Since the 2nd Quarter of 2009, sales tax from fuel has (on average) accounted for 56.9% of our total sales tax receipts. As an indicator of the effect of lower fuel prices, that ratio was down to 47.0% for the 1st Quarter of 2015. See the table below for fuel sales tax ratios for the first quarters of the last 5 years.

Year	Quarter	Fuel sales Tax %
2015	1	47.0%
2014	1	56.7%
2013	1	58.6%
2012	1	60.7%
2011	1	65.7%

This information, coupled with the proposed travel center in Orland, leads me to believe that reduced sales tax from fuel sales is less likely a short term "event" and more of a "trend" that we'll need to manage from a General Fund budget planning perspective.

Tribal Lands Expansion:

Mayor Strack and I met with Latisha Miller, Andy Freeman & others from the Nomlaki Band of Paskenta Indians on Wednesday. She advised that we should expect to receive a notice from the Bureau of Indian Affairs regarding their application to expand their tribal lands.

They are proposing to add 58.61 acres in the County to their tribal "trust lands". The property is located on the east side of Highway 99-W and south of Liberal Avenue-in the County. It's currently improved as a prune orchard. They have no immediate plans for development of the site. They are currently working on a Land Use Plan for their tribal lands and will share that plan when it's completed.

They also relayed that they're proposing to add the Rolling Hills Clinic property at 740 Solano Street to the tribal lands. The site here will continue to develop as a Medical Campus. They agreed to work with us to satisfy the City's development standards.

Staff Retirements & Replacement Plans:

City Manager Position:

The opportunity is posted on the *Western City* online Jobs Forum. A printed ad will appear in the September issue of the magazine. We're accepting applications through September 25th.

Police Chief Position:

This position is open for Promotional Recruitment. Police Chief Don Atkins has announced his intent to retire on December 23rd, 2015. The application period has now closed. We have scheduled interviews for September 3rd.

Senior Accounting Technician Position:

We're currently recruiting to replace Pala Cantrell, who's announced she will be leaving sometime this fall; between October and December. The application period closes on Friday, August 28th.

PUBLIC WORKS DEPARTMENT:

Water Leaks:

Two water main leaks have been reported to the Public Works Department. One is located in the street on Marguerite near Solano Street and the other is located in the street on Mooney

Court. Both locations have cleared the Underground Service Alert requirement and repairs are scheduled to be completed by Friday.

Clark Park Restrooms:

Public Works Department Dawn Grine and Steve Lindeman met with Building Official Terry Hoofard on Tuesday, August 25th to discuss options with regards to the existing structure.

Streetscape Project:

The Public Works Department is currently seeking bids for the Streetscape Project. There will be a Pre-Bid Field Review with the City Engineer and interested Contractors on September 22nd and the Bid opening is scheduled for 2:30pm on September 30th.

Public Works Director Meetings:

I attended the Corning Rotary Meeting on August 26th. They invited me to their meeting requesting an update on the Streetscape Project. I intend to make this an opportunity for the Public Works Department to reach out to local businesses within the projects construction limits. Construction is proposed to begin in April 2016.

Tehama County Transportation Commission meets at 10am on August 31st at the Tehama County Board of Supervisors Chambers located at 727 Oak Street, Red Bluff. The Agenda and Minutes can be found at www.co.tehama.ca.us.

Corning Rotary Meeting on September 2nd; Corning Rotary has invited Tehama County Transportation Commission Senior Planner Adam Hansen to their meeting. Mr. Hansen will be conducting a presentation of the DRAFT Regional Transportation Plan (RTP).

Tehama County Drought Task Force meets at 3pm on September 2nd at the Tehama County Sheriff's Office located at 22840 Antelope Boulevard, Red Bluff. Ryan Teubert, Tehama County Flood Control and Water Conservation District will forward the Agenda by email to the attendees. Contact Dawn Grine at 530/824-7029 for more information.

POLICE DEPARTMENT:

Patrol:

In addition to responding to 212 calls for service, a total of 30 officer reports were taken and there were 101 officer-initiated incidents, including 61 traffic stops. Officers made 11 misdemeanor arrests and 1 felony arrest, and issued 28 citations of which 11 were misdemeanors, 9 were infractions, 6 were parking-related, 1 was animal-related, and 1 was unclassified during the period of August 19, 2015 through August 26, 2015.

What cheap oil means, and where do prices go from here?

YAHOO!
FINANCE

By Andy Serwer 3 hours ago

At first blush $40 dollar-a-barrel oil sounds like a beautiful thing. It means cheap gas for your SUV and lower energy bills. Plus, businesses benefit so it's a good thing for the overall economy, right? That's all true as far as it goes, but dig a bit deeper and you see the calculus is a little trickier. What does cheap oil really mean for the economy? How did we get cheap oil to begin with, and where are prices going? I'll get into all of that in a second, but here's a headline: I think you can make the case that oil will stay cheap for some time, which could have a number of wide-ranging and long-lasting consequences.

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2. Barrel of US crude drops below $40 Associated Press
3. All Signs Point to Low Oil Prices Through 2016 Motley Fool
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5. Oil Prices Sink to Fresh Six-Year Lows Barrons.com

Let's take the unassailable good news first: The price of benchmark West Texas Intermediate crude oil recently dipped below $39 a barrel, which is down from $140 in 2008. That's an incredible 72% drop. And, yes, lower oil prices have pushed down gas prices. At $2.60 a gallon, gas is now about a dollar below where it was last year at this time. And it could continue to fall. Some analysts are looking for prices to drop below $2, maybe even down toward $1.60 a gallon, the low during the Great Recession in early 2009. When President Obama predicted in his State of the Union Address in January that "the typical family this year should save $750 at the pump," he was probably right. Multiply that by the nation's 115 million households and you get a total savings of over $86 billion. That's huge.

Lower gas prices help poor people in particular; households with incomes of less than $50,000 spent 21% of their income on energy in 2012, according to analysts at Bank of America Merrill Lynch, while households earning more than $50,000 spent 9%. Additionally, Americans who live in chillier regions like New England and the Midwest could save another $750 or so on energy bills.

And of course businesses make out as well. Automakers sell more cars and especially higher-margin trucks when gas is cheap. Over the past four years, as gas prices have dropped, total vehicle sales have climbed from 12 million a month to nearly 18 million. Trucking companies and railroads benefit tremendously from lower fuel costs. So, too, do fertilizer makers or any business that has to heat a factory or that has to pay a fuel bill. So overall, $40 oil is a huge positive for the economy.

On the other hand... And yet there is a downside. First thing to consider is U.S. employment in the oil and gas business. Numbers are a bit difficult to pin down, but it appears that some 500,000 Americans work in the oil and gas business in the U.S. That number has been dropping since late last year, which

will especially hurt the big five oil producing states: Texas, North Dakota, California, Alaska and Oklahoma. Bottom line: While these states in particular will suffer some from declining employment in this industry, Fortress America can absorb the hit, and furthermore, lower energy prices will more than make up for it.

Another problem with cheap oil, though, is that it will likely derail efforts to develop alternative sustainable energy sources like solar, wind and hydro. These businesses suddenly become uneconomical when the price of oil drops precipitously.

But the biggest problem with cheap oil may well be the destabilizing effect that it can have on oil-dependent nations around the world. Yes, some may cheer the pain Saudi Arabia and other OPEC nations will feel, but they should be careful of what they wish for as a raft of difficulties looms here. There are 19 countries that produce over a million barrels of oil a day, and it's a diverse group, including, of course, the U.S., Saudi Arabia and Kuwait, but also the likes of Brazil, Norway and Angola, and Canada. Each country will have to adjust to less income and lower employment in oil-related businesses. The nation's that stand to lose the most, though, are Russia, Saudi Arabia, Iran and Iraq—in order, the biggest oil exporters in the world. Coincidently or not, these countries pose huge potential risks to the rest of the world if their economies crater and they become unstable, or I should say in most cases here, more unstable. So in a way, low oil prices almost becomes more of a political problem than an economic one.

As for where oil prices go from here, of course no one can predict with certainty, but I would venture a guess that oil won't be soaring back up to $100 a barrel any time soon. And it's not because I think economic growth will necessarily be weak. It's simply because the world is awash in oil right now. To understand why, you have to go back to the work of an obscure Shell geologist named M. King Hubbert, who in the 1950s conceived of what became known as the Hubbert Curve, or the Peak Oil Theory, which postulated that production would peak in the coming decades as the planet ran out of oil. And as production slowed over the past few decades, it seemed that Hubbert might be right. His work developed a strong following, which contributed to the major run-up in oil prices over the last decade when oil rose from $20 to that $140 peak.

But a funny thing happened on the way to peak oil production: it didn't. In fact, Hubbert's work served as a challenge to the oil business. Oil companies increased exploration and discovered vast new fields, particularly off shore in places like Brazil and Indonesia. New technology and techniques were brought into the business to extract shale gas in the United States and other countries, which vastly increased supplies. Meanwhile, while demand for oil has climbed, it hasn't increased as fast as many anticipated as cars, factories and buildings become more efficient. And now demand from China may be slowing. So while Hubbert predicted that U.S. oil production would peak in the 1970s at about 9.5 million barrels a day and then fall to around two million barrels a day today heading to zero, it actually peaked at 10 million and fell to five, but has now climbed back up to nine million barrels a day.

All that could spell a long-lasting era of low prices. Which means American consumers and businesses mostly win, though there will be tough times for some people who work in either traditional energy or new sustainable energy businesses. The big worry is how low oil prices will impact certain global economies, and what that means for the rest of us.