

Withdraw the requirement for rate payers to repay the \$1MM General Fund Loan

Wastewater operational deficits and the \$1MM loan can be attributed to the overallocation of general fund expenses to rate payers:

- For the last 5 years, the wastewater enterprise has operated at significant annual deficits, leading to insolvency and the need for a \$1 million loan from the general fund.
- If the reduced general fund allocations applied in FY24-25 using the new allocation model had been applied 5 years ago, enterprise expenses would have been reduced, and reserves would not have been fully depleted. There would not be any need for the bailout loan.

This raises the question of the ethics of asking rate payers to repay the loan. The money being repaid is paid for past charges unrelated to water and wastewater services.

- The loan is to repay the city for charges unrelated to delivering water and wastewater services. Even going forward the city is using rate payer dollars to close the future budget gap.
- The city long-term budget forecast shows planned loan payments are being used to close the budget gap.
- ***This gives the appearance that the city is taking money from rate payers to address a budget gap that should be closed with a tax increase so that voters have a chance to approve or disapprove.***

The 24/25 Budget forecast appears to include interest charges on the \$1MM loan which were voted down by the city council. Why?

- The repayment of the \$1MM loan over five years from 2027-2031 is budgeted to be \$240,000 per year from rate payers (FY24-25 budget General Fund Forecast). This amount exceeds the \$1MM borrowed.
- This loan should be forgiven based on the argument above. Insult on top of injury the city is budgeting in the future to collect not just \$1MM but a total of \$1,200,000.
- The City Council voted not to charge the payer's interest. What is going on?

The \$1MM loan repayment should be forgiven based on:

- The loan was essentially to repay the city for expenses unrelated to delivering wastewater services. This is in violation of Proposition 218's requirement for the city to charge only for costs directly attributable to delivery of services.
- Rate payers had no role in the decisions the city/city council made to allow deficit spending for 5 years resulting in the need for a loan.
- Future rate payers who would be billed for the loan in many cases will be repaying the city for misallocated expenses that occurred before they became residents.

Actions Requested:

1. Create an agenda item to revisit the repayment of the \$1MM loan to being charged to Wastewater rate payers.
2. Assure city staff is in alignment with the decision by City council not to charge interest on the \$1MM loan.
3. Assess the legal and moral issues of charging future rate payers the cost of city expenses unrelated to water and wastewater services.
4. Reduce the wastewater rate to reflect a reduction of the \$200,000 annual five-year loan payment