

Bits and Pieces

1. Agenda Item 3: Water infrastructure Study

Note this item is on the consent calendar and would need to get pulled. Given the number of items, I would rather see it approved and the comments below considered as possible. It seems like the impact of wildfire is included in the proposal.

- The proposal looks pretty comprehensive.
- I know there is a “fire hydrant test” but I think that is just a test of the condition of the pipes. Can they also do an estimate of the impact of a large urban fire with and without power outages on the supply of water in the city?
 - With electrical power how many hydrants can be operated, and the pumps keep up.
 - Are there battery backup systems installed or available to ensure the pumps keep up?
- Will water quality be included in the report? The most recent water quality report only included 3 wells. Are we only using 3 wells? What is the condition of the others?

2. Agenda Item 7: Financial Update Enterprise Funds

It might be interesting to ask Ana for an update on “delinquencies”. There was a report earlier in the year that showed they were up a bit. The concern is the rate increases are creating issues for low-income residents.

3. Agenda Item 9: Long Range Budget

- The choice of assumptions is aggravating the deficit projections. If you assume a recession, then you have to assume a responsible government would look for a way to reduce or defer expenses at least by a little bit. In fact you are driving up personnel costs by 8% and doubling the Asset preservation additions to \$600,000 in the assumed recession year increasing the deficit substantially. (Note the assumption of increasing the asset preservation funding to \$900,000 in FY 26-27 does not show up)
- The scenario for planning is really the first one. \$1.2MM in expense cuts is not that difficult. Below are some examples of actions that get you pretty close.

- The city needs to develop and agree to implement a strategy for managing expenses. The most acceptable strategy is to prioritize compensating staff at or just above inflation to ensure you have qualified and enthusiastic employees. Part of the agreement, however, is that every staff person needs to find ways to eliminate unimportant work and expenditures that waste time and money. Priority has to go to services that are critical and have the most impact on residents and taxpayers in the city.
- Examples of actions to address the long-range budget deficits:
 - Reducing personnel costs increases in 2027 and the following years to the stated assumption of 3.25% increases.
 - Keep the asset preservation reserve at \$300,000 per year until the recession has passed and then increase by \$100,000 per year to \$800,000 by FY 32.
 - Freeze Services and Supply budget in 2027 due to recession and increase by only 1% per year to FY34 forcing efficiencies in the city's operations

These actions produce the expense total for scenario A with \$1.2MM in expense cuts and no hotels.

Scenario D with 1 hotel and the full ½ cent tax for 12 years, barely balances the budget in the out years with no expense cuts. This means the realistic scenario not shown (1 hotel and ¼ cent sales tax) leaves you in a budget deficit unless expenses are cut, or new revenue sources beyond the hotel are created.

For now, the city appears to have no choice but to become aggressive about keeping compensation increases below 3.25% annually and limiting Services and Supplies budget to 1% growth annually expecting staff to find ways to increase efficiency to fund critical expenses that may grow faster than 1%.

4. Agenda Item 13: Measure U and Water Rate Oversight

- Kind of a baby step but in the right direction. Water and sewer oversight should be more than just rate increases. It should include delinquencies,

water quality reports, any notices from regulatory agencies, progress on any ongoing capital projects, report on failures and repairs and well water levels. Some of this will be more logical once the Water infrastructure study is complete.

- This group should provide input to any initiatives related to water conservation and address the question whether conservation is necessary or required given the durability of our wells and aquifers. We might do more for fire protection and carbon sequestration by encouraging planting and watering green plantings.
- Measure U money has been spent unfortunately to cover the ongoing deficit spending and salary increases. That could change. Don't kill this idea just because there will be little latitude with Measure U money. Get started with Water/Sewer oversight and expand as opportunity presents itself.

With the help of funds from water rate payers repaying the loan, the General Fund Balance drops to 17% of expenditures in FY29 but increases to 19% in FY30,31,32 and 23-24% in FY33 &FY34

This plan is not the only plan but reflects respect for staff by increasing compensation at or above anticipated inflation but asking them to find ways to work more efficiently and spend less money.