

RESOLUTION NO. 245-41

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARCATA AUTHORIZING AN INTERFUND LOAN FROM THE WASTEWATER ENTERPRISE FUND TO THE WATER FUND IN AN AMOUNT NOT TO EXCEED \$3.5 MILLION AND FOR A PERIOD NOT TO EXCEED 10 YEARS

WHEREAS, applicable state law and generally accepted accounting practices allow for loans between a local government's funds; and

WHEREAS, on February 5, 2025, the City Council received a staff report on the financial status of the City's Water Enterprise Fund and the potential impact of the current engineer's estimate for the long planned for Steel Waterline Replacement Project; and

WHEREAS, the City Council adopted Resolution No. 245-33, the City of Arcata's Interfund Loan Policy on February 19, 2025 to establish the parameters for lending cash from one fund to another for periods longer than one year, so long as the lending fund is not hindered in accomplishing any function or project for which the fund was established; and

WHEREAS, the Steel Waterline Replacement Project has been in the Capital Improvement Plan for at least 20 years, and is the removal and replacement of approximately 33,600 linear feet (LF) of aging steel water main, 300 new valves, 680 laterals, and 700 meter boxes, within the City's water service area; and

WHEREAS, numerous sections of the Arcata waterline distribution system are comprised of steel waterlines, many which date 50-100 years old and because of their age are unreliable and frequently break or fail, requiring expensive emergency repairs; and

WHEREAS, the current cost for the Steel Waterline Replacement Project is estimated at \$12.0 million, significantly more than was built into the 2020 5-year water rate plan; and

WHEREAS, the Water Fund has approximately \$8.5 million in estimated current resources available for this critical infrastructure project which is not sufficient to fund the project if the engineer's estimate is the true cost of the project; and

WHEREAS, on March 5, 2025, the City Council approved a contract for \$125,375 with Bartle Wells Associates for comprehensive water and wastewater rates and capacity charge studies and an indirect cost allocation plan, in order to develop long-term financial plans for the Water and Wastewater funds, to include 5-year rate plans for both utilities; and

WHEREAS, capital improvements to the water and wastewater infrastructure are critical to the reliability, safety and sustainability of the City's water and wastewater systems; and

WHEREAS, consistent with the City's Interfund Loan Policy, the City and the City's Water customers will benefit from the increased reliability of the Water System Infrastructure from the Steel Waterline Replacement Project; there is an interdependent relationship between the water and wastewater systems that both provide clean water; and that the interfund loan to be repaid from the Water Fund is less expensive than other alternative borrowings; and will not hinder accomplishing any function or project set forth in establishing the Wastewater Fund.

NOW, THEREFORE, BE IT RESOLVED, that the City of Arcata City Council authorizes the Interfund Loan from the City’s Wastewater Enterprise Fund to the City’s Water Enterprise Fund with the following terms:

SECTION 1. Recitals. All the above recitals are true and correct, and this City Council finds, determines and represents.

SECTION 2. Authorization of Loan. The City Council of the City of Arcata authorizes the Interfund Loan up to \$3,500,000 to be repaid in ten (10) years or less. The Water Fund, receiving the loan, will pay quarterly interest on the amount of the loan at a rate equal to the percentage of interest and investment earnings paid by the California State Treasurer’s Local Agency Investment Fund (LAIF) during the same quarterly period. The loan will be interest only until the Steel Waterline Replacement Project is complete, then principal will be paid in equal quarterly installments for the remaining number of years, not to exceed 10 from the date the first funds are loaned from the Wastewater Fund to the Water Fund. If the fiscal state of the Water Fund allows for earlier repayment and it is in the best interest of both funds, such repayment is allowed and encouraged.

SECTION 2. Deposit of Loan Proceeds. The loan proceeds shall be recorded in the financial statements as addition to cash in the Water Fund and as a liability due to the Wastewater Fund. In the Wastewater Fund the transaction will be recorded as a reduction in cash and a loan receivable asset.

SECTION 3. Payment of Loan. The repayment of the interfund loan will be made from the Water Fund cash generated from charges for water services. Water rates will be set to include repayment of the interfund loan to the Wastewater Fund, unless the City Council in a future action repays all or a portion of the interfund loan from General Fund cash instead of from Water Fund cash. The estimated annual interest and principal payments will be budgeted each year as an interfund transfer from the Water Fund and as interfund transfer to the Wastewater Fund.

SECTION 4. This resolution shall take effect immediately upon its passage.

DATED:

ATTEST:

APPROVED:

City Clerk, City of Arcata

Mayor, City of Arcata

CLERK'S CERTIFICATE

I hereby certify that the foregoing is a true and correct copy of Resolution No.245-41, passed and adopted at a regular meeting of the City Council of the City of Arcata, Humboldt County, California, held on the 2nd day of April, 2025 by the following vote:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

City Clerk, City of Arcata