

## **Numbers in the new Water and Wastewater study inconsistent & not well explained.**

Thank you for the opportunity to study the new Water and Wastewater study in detail. There are a few issues, perhaps not unexpected in such a complex study. Some logistics, some perhaps meaningful to the rates chosen by the City Council at the last meeting.

### **Missing pages, missing explanations for G&A allocation assumptions in out years**

First, there are some missing pages from the end of the study. Pages 58, 59 and 61 are not included. Appendix A & B in the table of contents may be the allocation % on pages 60 and 62 but they are not labeled nor are they explained. Perhaps the explanation was on the missing pages.

If pages 60 and 62 are outputs from the allocation model, then they need more explanation or different outputs should be selected perhaps showing the dollar amounts allocated from each city department. If page 61 is missing it should be included if it adds clarity to the Appendices. The inconsistencies of the G&A allocation numbers discussed below add to the uncertainty about the model and the city's habit to shift unrelated city expenses to water.

The new allocation model is pretty slick but leans toward being a black box. This means an observer cannot easily see how the model gets to its conclusions. The model has the potential to obscure the allocations actually being made and set up another opportunity for an inattentive or unethical city council to begin misallocating expenses again. Sebastopol needs to continue seeking transparency in your policies and the city's actions. You need to go overboard explaining how you get to the future G&A allocation numbers. You are asking rate payers to pay higher rates based on those numbers which have not been vetted by anyone.

### **Water expense projections are inconsistent with the stated inflation assumptions.**

**Table 4-4 Summary of Projected Water Operations and Maintenance Expenses** appears to show the forecast of various expenses projected forward to FY 2028-29. The text explains that these amounts are derived using the assumptions presented in **Table 3-7 Inflationary Assumptions**.

**Table 4-4: Summary of Projected Water Operations and Maintenance Expenses**

Line Item	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
Salaries & Benefits	\$498,327	\$564,063	\$586,907	\$648,049	\$671,283	\$792,660
Materials, Supplies & Equipment	\$163,722	\$168,633	\$173,692	\$178,903	\$184,270	\$189,798
Replacement Program	\$15,226	\$15,734	\$16,260	\$16,803	\$17,364	\$17,945
Utilities	\$272,541	\$300,256	\$330,828	\$354,825	\$380,579	\$400,745
Capital Outlay	\$41,647	\$42,896	\$44,183	\$45,509	\$46,874	\$48,280
Other	\$365,441	\$258,262	\$266,032	\$274,037	\$282,282	\$290,776
G&A Allocation	\$1,363,097	\$852,863	\$823,801	\$882,031	\$919,522	\$1,011,058
<b>Total</b>	<b>\$2,720,000</b>	<b>\$2,202,707</b>	<b>\$2,241,703</b>	<b>\$2,400,156</b>	<b>\$2,502,175</b>	<b>\$2,751,261</b>

**Table 3-7: Inflationary Assumptions**

	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
General	3.0%	3.0%	3.0%	3.0%	3.0%
Salary	3.0%	3.0%	3.0%	3.0%	3.0%
Benefits	7.0%	7.0%	7.0%	5.0%	6.0%
Utilities	10.0%	10.0%	7.0%	7.0%	5.0%
Subregional	6.0%	6.0%	6.0%	6.0%	6.0%
Capital	6.0%	6.0%	6.0%	6.0%	6.0%

The table below calculates the year-to-year changes of the values presented in Table 4-4.

YY % Change Water Expenses	24-25	25-26	26-27	27-28	28-29
Salaries & Benefits	13.2%	4.0%	10.4%	3.6%	18.1%
Materials, supplies & Equipment	3.0%	3.0%	3.0%	3.0%	3.0%
Replacement Program	3.3%	3.3%	3.3%	3.3%	3.3%
Utilities	10.2%	10.2%	7.3%	7.3%	5.3%
Capital Outlay	3.0%	3.0%	3.0%	3.0%	3.0%
Other	-29.3%	3.0%	3.0%	3.0%	3.0%
G&A Allocation	-37.4%	-3.4%	7.1%	4.3%	10.0%
<b>Total</b>	<b>-19.0%</b>	<b>1.8%</b>	<b>7.1%</b>	<b>4.3%</b>	<b>10.0%</b>
<b>Inflationary Assumptions</b>					
Salary	0.6	0.03	0.03	0.03	0.03
Benefits	0.4	0.07	0.07	0.07	0.06
*Weighted Average Salary & Benefits		4.6%	4.6%	4.6%	4.2%

Salaries and Benefits appear to have no relationship to the inflationary assumptions in Table 3-7 and should probably be explained in the report. The weighted average at the bottom of the table should be close to the projected increases in salaries and benefits going forward. I believe there was a plan to add headcount which might explain the 10% increase in 26-27, not

sure about 18% in 28-29 maybe more headcount. The rationale to add headcount to reduce other costs does not go very well with the projected budget numbers, as there are no offsetting cost savings. All should be clear from the discussion in the written report.

Careful thought and attention need to be put into the many years of double-digit expenses increases associated with water and sewer. Some of it is related to the increases in the General Fund expenditures that were misallocated to Water and Wastewater. However, direct costs increased significantly, and salaries and benefits are now projected to increase by double digits over 5 years. Maybe a small city like Sebastopol can't afford the overhead cost to supply water to only 7,000 residents (3,000 households). Cotati seems to be doing fine, maybe we need to be more efficient. Maybe consolidation with the County should be explored here also.

Other issues include:

- the utilities assumption that it goes down from 7% to 5% in FY 27-28 on Table 3-7 which is not reflected in the Y/Y increase in FY 27-28 Table 4-4 which shows 7.3% instead of 5%.
- The Capital outlay expense is stated in Table 3-7 to increase by 6% but only budgeted in Table 4-4 for a 3% increase across all years. Maybe the 6% is for CIP projects and not capital outlay? What is the inflation assumption for capital outlay then? Details matter..what is CAPITAL in Table 3-7?

The G&A allocation goes down substantially in FY 25-26 after the "correction" that takes effect in 24-25. Given that the 24-25 budget has not been fully developed it seems problematic to assume a 3.4% decrease in expenses for FY 25-26.

- Not sure why G&A allocation increases are so dramatically greater in 26-27 and 28-29. Is the city already finding new expenses to shift to water and wastewater rate payers? Again, not consistent with Table 3-7 Inflationary Assumptions and no other explanation provided in the report.

**Wastewater expense increases similarly do not follow the guidelines in Table 3-7 and I have not yet found an explanation for the variance.**

Like Water, the salary and benefit increases are quite varied and different from Water. Maybe some plan to add headcount to water and wastewater at different times? Again, there is no obvious benefit to having more headcount when you look at the projected expenses. A hard look at the expected benefits of the new headcount is needed. The rationale that Cotati has more staff is insufficient. Work needs to be identified and quantified and then costed against contractors vs staff. Given the incredible burden of disability, health and retirement benefit costs, adding more staff needs to be thought out carefully. Over the last couple of years worker injuries depleted Public Works staff still being paid and resulted in paying additional money to

contractors to do the work. Given that the issues are likely intermittent and perhaps if they come at the same time even hiring more staff may not be sufficient requiring add contractors anyway. In a small town like ours it may make more sense to contract work during peak times.

The 25% jump in Subregional Contract Services in FY 24-25 is a surprise and was not telegraphed before this. That should impact all local cities but is not reflected anywhere I have seen. Big expense increases in the first year dramatically impact the need for rate increases. Someone needs to check or explain.

Utility expense increases have been singled out by Public Works as an explanation for why we are not seeing the expected savings from the Syserco initiative. The increases on Table 3-7 seem consistent with other data from PG&E and other cities. With our energy savings projects complete it seems like there should be some savings here.

Again, capital cost increases for Wastewater are inconsistent with Table 3-7.

**G&A allocation cost increases are also different from what one might extract from Table 3-7 and inconsistent with the changes reflected in Table 4-4 Summary of Projected Water Operations and Maintenance Expenses.**

Water G&A Allocation goes down 37.4% in FY24-25 and then down again 3.4% in FY25-26. Wastewater G&A allocation goes down by only 18.3% in FY24-25 and then increases by 15% in 25-26. Why would G&A allocation be so different between water and wastewater? What is driving the increase in FY 25-26 we don't even have a preliminary budget that far out yet? Again, explanations beyond "we used the inflation assumptions in Table 3-7" are needed if indeed these assumptions were not used.

**Table 7-4: Summary of Projected Wastewater Operations and Maintenance Expenses**

Line Item	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
Salaries & Benefits	\$454,982	\$519,529	\$541,155	\$601,051	\$622,944	\$647,713
Materials, Supplies & Equipment	\$126,129	\$129,913	\$133,810	\$137,824	\$141,959	\$146,218
Subregional Contract Services	\$1,821,822	\$2,280,000	\$2,416,800	\$2,561,808	\$2,715,516	\$2,878,447
Utilities	\$64,137	\$70,543	\$77,606	\$83,162	\$89,123	\$93,803
Capital Outlay	\$43,380	\$44,681	\$46,022	\$47,403	\$48,825	\$50,289
Other	\$245,144	\$121,696	\$125,347	\$129,107	\$132,980	\$136,970
G&A Allocation	\$1,113,046	\$908,935	\$1,045,651	\$1,114,391	\$1,174,171	\$1,237,427
<b>Total</b>	<b>\$3,868,640</b>	<b>\$4,075,296</b>	<b>\$4,386,390</b>	<b>\$4,674,746</b>	<b>\$4,925,518</b>	<b>\$5,190,867</b>

Y/Y % Change Wastewater Expenses	24-25	25-26	26-27	27-28	28-29
Salaries & Benefits	14.2%	4.2%	11.1%	3.6%	4.0%
Materials, supplies & Equipment	3.0%	3.0%	3.0%	3.0%	3.0%
Subregional Contract Services	25.1%	6.0%	6.0%	6.0%	6.0%
Utilities	10.0%	10.0%	7.2%	7.2%	5.3%
Capital Outlay	3.0%	3.0%	3.0%	3.0%	3.0%
Other	-50.4%	3.0%	3.0%	3.0%	3.0%
G&A Allocation	-18.3%	15.0%	6.6%	5.4%	5.4%
Total	5.3%	7.6%	6.6%	5.4%	5.4%

**Why did the approved 2019 increases in Wastewater rates not get implemented at some point in the following 5 years?**

During a past city council meeting, it was pointed out that the Wastewater revenues were substantially less than planned based on the 2019 Water and Wastewater study and the rate increases approved by the city council resolution attached to that study.

Table 4-6 below was taken from the 2019 Rate Study. Note the Sewer section and the line labeled **Revenue Under Existing Rates**.

<b>Table 4-6</b>					
<b>Revenue Requirements vs. Revenue Under Existing Rates</b>					
<b>Fiscal Years Ending June 30 (\$ thousands)</b>					
	18-19	19-20	20-21	21-22	22-23
<b>Water</b>					
Beginning Cash Balance	\$2,368	\$1,779	\$1,721	\$1,671	\$1,584
Revenue Under Existing Rates	2,279	2,268	2,304	2,313	2,323
O&M, Debt Service & Cash Funded Capital	<u>2,868</u>	<u>2,326</u>	<u>2,353</u>	<u>2,401</u>	<u>2,762</u>
Net Cashflow	(589)	(58)	(49)	(88)	(439)
Ending Cash Balance	\$1,779	\$1,721	\$1,671	\$1,584	\$1,144
<b>Sewer</b>					
Beginning Cash Balance	\$2,543	\$1,534	\$1,411	\$800	(\$156)
Revenue Under Existing Rates	3,038	3,038	3,092	3,098	3,108
O&M, Debt Service & Cash Funded Capital	<u>4,047</u>	<u>3,161</u>	<u>3,703</u>	<u>4,052</u>	<u>4,484</u>
Net Cashflow	(1,009)	(123)	(611)	(956)	(1,286)
Ending Cash Balance	\$1,534	\$1,411	\$800	(\$156)	(\$1,443)
Note: Values are rounded to the nearest \$1,000					

The Table below looks at the Revenue expected from “Existing Rates” for wastewater billing taken from Table 4-6 above and compares it to the reported actuals for each year.

Wastewater Revenue Analysis (2019 Rate study vs. Actual)						
	18-19	19-20	20-21	21-22	22-23	
Revenue Under Existing (2018) Rates	\$ 3,038,000	\$ 3,038,000	\$ 3,092,000	\$ 3,098,000	\$ 3,108,000	
Actual from 23-j14 Budget	\$ 3,140,597	\$ 2,926,836	\$ 2,898,912	\$ 2,997,664	\$ 3,197,500	
	\$ 102,597	\$ (111,164)	\$ (193,088)	\$ (100,336)	\$ 89,500	

Note that it appears the actual billing is just slightly below the projected revenues after 2019 without any rate increases.

On the surface it appears the city never actually implemented the Wastewater rate increases that were passed in 2020. This is an issue that should be looked at more carefully. The consequence of this failure is having a serious impact on individual rate payers and taxpayers in the city of Sebastopol.

**Conclusion**

There are many issues that have been identified in public comments that have not been addressed adequately. It is difficult to look at each of them if we don’t really understand the numbers or trust the accuracy of the data. One of the explanations for the failure of the last rate study was bad data. Data accuracy is important to the outcome of this study as well.

**Ongoing Issues:**

**Rates are higher than surrounding communities of similar size.** Expense is correspondingly higher as well. This is consistent with the new city manager’s initial assessment of tax revenues and general expenses in the city being higher than surrounding communities. Are we too few people supporting too much fixed cost or just not very efficiently run as a city.

**Tiered rate structure – drives unacceptable cost increases for higher water users in an environment where the rates are already high.** The rationale to encourage lower water use sounds good but is not consistent with what appears to be ample water supply and the importance of consistent water use generating revenue to cover expenses. Properly irrigated plants and trees in residential areas reduces the risk of fire.

**Justification for higher tiered costs not supported by data as required by law.** Higher uses for irrigation are typically at night with lower cost electricity. Much of our electricity requirement should be offset by solar based on the number and high value of solar projects over the last few years.

**The description of billing wastewater based on winter use does not appear to be consistent with actual billing to individuals in Sebastopol.** Wastewater charges go up substantially during the summer months when water usage goes up “due to irrigation” on the bills I have seen.

**The decision not to address many years of misappropriation of water and wastewater rate payer revenues to fund general fund expenses has not been addressed.** Imagine a Grand Jury investigation requires certain actions to prevent this in the future. What policies and procedures would you put in place to reassure the Grand Jury and more importantly your rate payers

**The decision to borrow millions of dollars to install new wireless water meters has not been addressed.** Promises of cost savings have not been realized. Water and Sewer Rate payers should not be on the hook for negligent decisions by past city councils. There should be policies requiring the city council to formally designate unspent revenues that will pay off new debt when it is brought to council for approval.

**Address the lack of oversight of the Water and Wastewater operations by creating a separate oversight group.** I have been asking for the Council to attend to these issues for well over a year and have been ignored. There has been no effective oversight for many years. It was passed over without significant analysis or comment for the last two budget cycles. Deficits began shortly after the 2019 rate study and no one asked why? It is time to establish an oversight committee that includes city staff, council and rate payer representation that meets at least quarterly to review performance and recommend actions to the full Council as necessary.