

Public Comment: Excellent documentation of general expense allocations to enterprise funds.

To City Council,

First kudos to the new City Manager. The study done by clear source financial consulting is the best I have seen in two years of closely following city affairs. The only mistake is the failure to make one column on page 48 of 93 wide enough to display the total. I'm not sure I have ever looked at this many tables of numbers and found so few errors. This gives me confidence in the work and allows everyone to focus on policy and substance rather than just a confusing discussion of errors and poor data.

If there is a criticism it would be that the attempt to be transparent and provide the full detail of the model that was developed introduces a complexity to the task that will make it difficult for all but the most persistent of us to understand what is going on. In my experience the best experiences are when the Consultant can help the most uninformed of us to understand quickly and easily.

This analysis starts with a simple high-level overview of how the allocation amounts change by department and an assessment of reasonableness. The next section includes some thoughts about line items that might be reconsidered for allocation to water and sewer operations based on the criteria specified in Propositions 218 and 26. Finally, the presentation proposes applying the method to the upcoming budget preparations. I suggest it be applied to the 23-24 fiscal year to mitigate some of the current deficit. Reimbursing rate payers for general fund expenses that were mistakenly allocated to them, going further back in time should be a legal and ethical consideration as well.

Data Analysis – Check and see if the differences in the two approaches to allocate overhead to water and sewer make sense?

Below is a comparison of the allocated amounts using the current method and the new method. *(Note the amounts in the Current Column come from the 23-24 Adopted budget published on the city website. The “budget” numbers in the consultant document differ by relatively small amounts. It seems likely that at some point the city started using a different “budget document” than the one originally approved. The differences are minor and my observations below are relevant even with the differences.)*

Water Enterprise Expense Allocation				Water Enterprise Expense Allocation			
	Current (1)	New	Change		Current (1)	New	Change
City Council	\$ 19,381	\$ 40,400	\$ 21,019	City Council	\$ 22,612	\$ 43,843	\$ 21,231
City Manager	\$ 84,728	\$ 97,130	\$ 12,402	City Manager	\$ 84,728	\$ 105,330	\$ 20,602
City Attorney	\$ 32,262	\$ 80,426	\$ 48,164	City Attorney	\$ 19,357	\$ 120,807	\$ 101,450
Asst City Mgr	\$ 30,660	\$ 37,822	\$ 7,162	Asst City Mgr	\$ 26,827	\$ 56,811	\$ 29,984
Administration	\$ 508,319	\$ 302,785	\$ (205,534)	Administration	\$ 494,942	\$ 329,917	\$ (165,025)
Planning	\$ 31,998	\$ -	\$ (31,998)	Planning	\$ 19,199	\$ -	\$ (19,199)
Building	\$ 31,899	\$ -	\$ (31,899)	Building	\$ 31,899	\$ -	\$ (31,899)
Engineering	\$ 162,383	\$ 104,460	\$ (57,923)	Engineering	\$ 133,727	\$ 107,224	\$ (26,503)
Fire and Prevention	\$ 101,591	\$ -	\$ (101,591)	Fire and Prevention	\$ -	\$ -	\$ -
Public Works Yard	\$ 295,832	\$ 170,182	\$ (125,650)	Public Works Yard	\$ 215,711	\$ 124,881	\$ (90,830)
Public Works Gov Bldg	\$ 38,034	\$ 6,187	\$ (31,847)	Public Works Gov Bldg	\$ 38,034	\$ 5,218	\$ (32,816)
Non-Departmental	\$ 26,010	\$ 13,471	\$ (12,539)	Non-Departmental	\$ 26,010	\$ 14,904	\$ (11,106)
	\$ 1,363,097	\$ 852,863	\$ (510,234)		\$ 1,113,046	\$ 908,935	\$ (204,111)

Commentary on the Data Analysis

- As described in the consultant document, the major changes were the exclusion of Fire, Planning and Building from the allocations to central services and by extension the water and sewer enterprise funds.
 - o How fire related to delivering and billing water services was always a mystery. It was unclear what role planning played given engineering did most of the planning work for water and sewer infrastructure projects. Building Inspection never had an obvious connection to water and wastewater production and handling.
 - o There was a significant reduction in the allocated costs from Administration/Finance. Prior to this 75% of the admin/finance budget was allocated to accounting for water and sewer. This essentially left part of 1 FTE to do the city-wide accounting which was unrealistic. It is not a surprise that 20 years ago our city finances were probably pretty simple, and the major administrative task was billing for water and sewer services. This change is welcome and more realistic.
- Public works allocations are also reduced somewhat.
 - o It seems like it is largely from the assigned costs for the corporate yard which were in excess of 80%. It seemed unrealistic that the only expenses associated with the yard were sewer and water given the complexity of the responsibilities taken on today by the public works department. Again, an obvious change given the increased complexity of our city and the demands it places on our departments.
- Increased costs were assigned primarily to the city council and the city attorney.
 - o If the litigation expense increase is due to allocating litigation costs associated with the ACLU lawsuit or other suits unrelated to water and sewer then the amount may be inappropriate.
 - Consider budgeting anticipated legal costs based on history. Actual litigation costs would then be direct operating expenses and not allocated.
 - o Prior allocation had the city council spending 24% of their time on water and sewer. This city council has spent almost no time on water and sewer in the last 12 months.
 - The ad hoc budget committee only discussed it for about 15 minutes at their last meeting before presenting the budget to the full city council.
 - The full city council got to water and sewer around 10pm on day 2 of the review and had only a brief discussion.
 - Capital improvement projects for water and sewer were referenced in a general way but little real discussion took place.
 - Water and Sewer has been on the agenda once to provide input to the ongoing rate study.
 - There was approval to buy a new dump truck placed on the consent calendar where it got no discussion.
 - This increased allocation would mean the City Council spending almost 50% of their time overseeing the water and sewer operations. More oversight would be something to aspire to, but I am doubtful it will be achieved. Consider reduction to something approaching prior 24%?

Proposition 218 and 26 considerations for line items being allocated to Water and Wastewater Rate Payers

Again, kudos to the City Manager, this is the first time I have ever seen a city document that references these laws. The last bullet on page 7 of the presentation says: “Be mindful of downstream impacts to cost of service-based rates/fees (Proposition 218 and Proposition 26). The presentation will not change but assuming you write policies and procedures to govern how city staff implement this initiative consider legal input on stronger language than simply “mindful”.

This section specifically concerns individual expenses as it relates to Proposition 218 and Proposition 26. The specifics of these Propositions are somewhat complicated, but it seems reasonable to measure this allocation plan against the first of five substantive requirements on fees stated in Article XIID, section 6:

“Revenues derived from the fee shall not be used for any purpose other than that for which the fee was imposed.”

The goal should be to avoid allocating expenses completely unrelated to delivering Water and Wastewater services.

Areas for consideration:

Conference meeting and travel expenses –

- most departments allocate these as shared services which is appropriate assuming the topics relate to governing more effectively. However, it would not be surprised that many conferences and training meetings would not address water and sewer operations. It is a relatively small expense that may not be worth the risk of allocating to water and sewer.

Professional contracted services –

- These are specific projects defined with scope defined by the contract. I suspect many contracted services have benefits across city functions but also have little or no relevance to delivering water services.
- Consider assigning only contracted services specifically for water or sewer projects as a direct operating expense to water and sewer and not an allocating contracted services expense from any department.

Litigation expense –

- stands out due to the dramatically increased amount compared to historical actual amounts. My assumption (dangerous to assume) is that this is due to the ACLU suit which has no relationship to the city water and sewer services.
- Since litigation is very specific and limited to a small number of individual events, consider budgeting the line item based on history and assign actual expense based on relevance to water and sewer and not include it in the shared central services allocation to water and sewer.

Recruitment expense –

- In a couple of budgets recruitment is included in the central services allocation, which is perfectly fine for many departments, but water and sewer should only be charged for recruitment for positions relevant to the services provided.
- Only a few city positions are recruited each year, and it could be handled individually in the accounting system.

City Manager vehicle allowance –

- I guess is relevant to the extent that if the City Manager can't get to work, he can't supervise the water and sewer enterprises. Small number, not sure I would allocate it to water and sewer.

Missing from this analysis are the promised savings from the SYSERCO energy initiative.

- When the council approved taking on the debt payments for the initiative to buy wireless water meters there was an explicit promise that cost savings beginning in year one would offset the debt payments.
- This was another unpopular agenda item covered after a long meeting. Objections to the wireless water meters dominated the discussion and the council failed to discuss how the costs and cost savings for the various elements of the initiative would be allocated between the general fund and water and wastewater rate payers.
- There were public comments asking where the cost savings were coming from. It was unclear to the public and largely ignored by the council in their haste to vote on what was presented as a no cost initiative to save energy and to save our planet.
- The challenge for this modelling exercise is that the cost of the water meters and the associated debt payments are going to water and sewer rate payers. The cost savings must come from other aspects of the bundle of projects included in the proposal. If so water and sewer rate payers are paying all the actual cost and the free ride the city council expected will not happen.
- Realistically any savings need to go back to water and sewer rate payers to offset the debt payment. If there are savings, they need to be addressed in this analysis with an explanation for how they are getting back to the rate payers.

Next Steps

The consultant presentation proposes the next steps as accepting and applying the method to the 23-25 budget year.

The City Council should discuss whether to apply the proposed methodology to the 23-24 fiscal year. At this point it would reduce the amount rate payers have to pay to restore the reserve fund by \$714,000. That is something like \$200 each rate payer would not be up charged when the new rates are announced.

It would be worth an experienced legal opinion on whether raising future rates to restore the reserve funds depleted by past spending on expenses not directly related to water and wastewater funds violates Proposition 218 and or 26.

Ethically, there is a strong case that rate payers should be compensated going back to the approval of Proposition 218 and 26.