

Table 2: Summary of Key Differences between Option 1 and Option 2, Wastewater Fund, Escalated Dollars

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Option 1					
Added staffing cost	\$46,000	None	\$37,000	None	\$95,000
CIP spending (Total)	\$781,000	\$773,000	\$1,492,000	\$2,111,000	\$709,000
Op. Reserve goal	25%	25%	25%	25%	25%
Projected Reserve	2%	13%	12%	9%	27%
Revenue increases	65%	14%	11%	11%	2%
Option 2					
Added staffing cost	\$46,000	None	\$37,000	None	None
CIP spending (Total)	\$36,000	\$158,000	\$804,000	\$444,000	\$1,327,000
Op. Reserve goal	25%	25%	25%	25%	25%
Projected Reserve	9%	19%	15%	26%	27%
Revenue increases	50%	11%	10%	10%	10%

Option 1 is the “baseline” and recommended option because it is, in the best professional judgment of staff, what we should do to properly operate the City’s water and wastewater systems. Option 2 is a lower level of service alternative, offered to reduce rate increases while meeting minimum requirements.

Option 1 includes additional staffing to allow for better preventative maintenance, more timely response to emergency repairs, and more funding for system replacement. This is defined as the baseline option because any other options should be compared with this baseline.

Option 2 was developed because Council requested an option with zero staffing and zero CIP. Staff could not, in its judgment, come up with such an option. For example, Well 4 replacement is State-mandated and needs to be implemented. However, given the fiscal state of the Enterprise funds, Option 2 was developed to get closer to Council’s direction and is a lower level of service that staff “can live with” given the poor fiscal state of the funds. This option increases the risk of failures and the consequences of leaking and broken pipes, more frequent and longer interruptions in water and sewer service, and sewage spills. If Option 2 is selected by Council, it is recommended that each year staff report to Council to see if there is an opportunity to add capital replacement projects that will benefit the system.

BACKGROUND:

In May 2023, the City contracted with Raftelis to conduct a Utility Rate Study for both Water and Wastewater Enterprise Funds. A rate study is recommended to be done approximately every five years to ensure the City will have sufficient water and wastewater revenues to meet ongoing operational and capital obligations. Over the past 10 years, the City has conducted two prior rate studies: a study in 2012 (done in-house) with a five-year rate structure approved by the Council on February 20, 2012 and a subsequent study in 2019 (prepared by an outside consultant, Willdan) with a four-year rate structure approved by the Council on January 7, 2020.

On October 3, 2023, staff brought forward a review of the Enterprise funds and showed the water and wastewater funds projected to be in a negative balance situation. To address the severity of the fund cash balances, staff presented three scenarios for significant rate increases shown in Table 3. The scenarios assumed a rate increase would be in effect by March 2024.

Table 3: Scenarios Proposed for Consideration on October 3, 2024

Scenario	5-year Revenue Increase Reqmt. (%)	(1) staff added by	CIP funding	Positive Cash Balance by	25% Reserve by
Water Fund					
1 - O&M	60/5/2/2/2	FY 2024-25	None	FY 2024-25	FY 2026-27
2 – Right the ship	125/0/0/0/0	FY 2024-25	Yes, as planned	FY 2023-24	FY 2025-26
3 – CIP phase-in	75/6/5/5/5	FY 2024-25	Reduced level, then ramps up	FY 2024-25	FY 2025-26
Wastewater Fund					
1 – O&M	125/0/0/0/0	FY 2025-26	None	FY 2024-25	FY 2024-25
2 – Right the ship	175/0/0/0/0/0	FY 2025-26	Yes, as planned	FY 2023-24	FY 2024-25
3 – CIP phase-in	125/0/0/0/0	FY 2025-26	Reduced level, then ramps up	FY 2023-24	FY 2024-25

At the meeting, Council had many questions and directed staff to complete the City’s General and Administrative cost allocation study (also known as G&A Allocation study to properly distribute the costs of overhead among City functions) before returning with an updated plan. They also wanted to know “how did we get here?” Lastly, Council wanted to see the full report and not just summary scenarios. The questions from Council, and staff’s responses are listed in Attachment 2. The G&A Allocation Study was accepted by Council at the February 20, 2024 meeting and results in a decrease of allocation to the water and wastewater enterprise funds effective July 1, 2024. For an analysis as to “how did we get here?,” see Attachment 3.

DISCUSSION:

The key differences between the two options are shown in Tables 4 through 7 and are detailed in the Financial Plan presentation (Attachment 1). The key differences are the staffing proposal and CIP spending.

Regarding staffing, the costs of proposed positions are presented in the tables below. A 1% increase in revenues in the Water Fund generates about \$23,000/year. A 1% increase in revenues in the Wastewater Fund generates \$31,000/year.

Table 4: Detail Summary for Option 1, Water Fund

Option 1-Water	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Staffing	Shift 0.5 exist. Parks Laborer	No change	Return 0.5 Parks Laborer; add 0.5 new Maint. Worker	No change	Add 0.5 new Maint. Worker
Added staffing cost	\$46,000	No change	\$37,000	No change	\$95,000
CIP spending (Total)	\$809,000	\$1,191,000	\$4,143,000	\$1,985,000	\$851,000
Well 4 (P1)		476,000	3,282,000		
Water Master Plan (P2)	135,000				
Florence WL South (P3)			33,000	243,000	
Florence WL North (P3)			71,000	538,000	
Pleasant Hill Rd WL design (P3)				401,000	
Replacement Program (P3)	674,000	715,000	757,000	803,000	851,000

Table 5: Detail Summary for Option 2, Water Fund

Option 2-Water	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Staffing	Shift 0.5 exist. Parks Laborer	None	Return 0.5 Parks Laborer; add 0.5 new Maint. Worker	None	None
Added staffing cost	\$46,000	None	\$37,000	None	None
CIP spending (Total)	\$135,000	\$834,000	\$3,661,000	\$401,000	\$851,000
Well 4 (P1)		476,000	3,282,000		
Water Master Plan (P2)	135,000				
Florence WL South (P3)					
Florence WL North (P3)					
Pleasant Hill Rd WL design (P3)					
Replacement Program (P3)		357,000	379,000	401,000	851,000

Table 6: Detail Summary for Option 1, Wastewater Fund

Option 1-Wastewater	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Staffing	Shift 0.5 exist. Parks Laborer	None	Return 0.5 Parks Laborer; add 0.5 new Maint. Worker	None	Add 0.5 new Maint. Worker
Added staffing cost	\$46,000.	No change	\$37,000.	No change	\$67,000.
CIP spending (Total)	\$781,000	\$773,000	\$1,492,000	\$2,111,000	\$709,000
Zimpher Ck Sewer Part 1 (P1)	36,000	1,000	280,000		
Zimpher Ck Sewer Part 2 (P1)		137,000	1,000	809,000	
Zimpher Ck Sewer Part 3 (P1)	35,000	37,000.	526,000		
Sewer Master Plan (P2)	148,000				
Florence Avenue – South		1,000	27,000	370,000	
Florence Avenue – North		1,000	27,000	263,000	
Replacement Program (P3)	562,000	596,000	631,000	669,000	709,000

Table 7: Detail Summary for Option 2, Wastewater Fund

Option 2 - Wastewater	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Staffing	Shift 0.5 exist. Parks Laborer	None	Return 0.5 Parks Laborer; add 0.5 new Maint. Worker	None	None
Added staffing cost	\$46,000.	No change	\$37,000.	No change	
CIP spending (Total)	\$36,000	\$158,000	\$804,000	\$444,000	\$1,327,000
Zimpher Ck Sewer Part 1 (P1)	36,000	1,000	280,000		
Zimpher Ck Sewer Part 2 (P1)			145,000	1,000	857,000
Zimpher Ck Sewer Part 3 (P1)				41,000	44,000
Sewer Master Plan (P2)		157,000			
Replacement Program (P3)			379,000	401,000	426,000

SUMMARY OF IMPACTS ON RATES

Attachments 1 and 2 provides information on rates for typical single family homes with the two options. With Option 1 Sebastopol's rates would increase by 46%, and be 1% higher than rates in nearby cities. With Option 2 rates would increase by 33%, and be 8% lower than the average of nearby cities. Both options would result in bills towards the upper end of the County (note: comparisons are pending rate studies underway in Rohnert Park and Windsor).

Staff is also recommending that we move to a tiered structure for rates. With this approach users would pay less per gallon if their water use is low, and more per gallon for higher use. Attachment 1 provides more detail.

GENERAL FUND LOAN:

As discussed in this report, revenue has been insufficient to meet operating expenses. Beginning in January 2024, the Wastewater fund has been operating in the red and the City General Fund has paid expenses since that time. The potential need for these actions were outlined in the adopted Fiscal Year 2023-24 budget and reiterated in the rate study presented to Council at the October 3, 2023 meeting. Projected revenue adjustments would have addressed the shortfall had they occurred when originally anticipated, in March 2024. If adopted, the proposed rates under both options include the Wastewater Fund re-paying the General Fund over a period of 5 years at a 3% interest rate, with total interest of approximately \$100,000. They also reflect external borrowing by the Water Fund for the replacement of Well 4 in FY 2026-27.

COMMUNITY OUTREACH:

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to the scheduled meeting date.

FISCAL IMPACT:

Both options will improve the fiscal health of the Water and Wastewater funds. See Tables 1 and 2 in the Executive Summary to view the operating reserve percentages for each option. While the Wastewater fund will not meet the City's operating reserve minimum of 25% until Fiscal Year 2028-29 in the Baseline Option 1, the fund will be operating in the black and sufficiently meet operating expenses and debt service coverage requirements throughout the 5-year period. The Water fund will meet the 25% operating reserve minimum starting in Fiscal Year 2025-26 to secure external financing for Well 4 replacement.

If adopted, the proposed rates under both options include the Wastewater Fund re-paying the General Fund over a period of 5 years at a 3% interest rate as well as external borrowing by the Water Fund for the replacement of Well 4 in FY 2026-27.

OPTIONS:

Council has the following options to consider:

1. Option 1 (staff-preferred option); or
2. Option 2; or
3. Modifications to the above Option 1 and Option 2, as directed. Modifications may include changes to staffing proposal, CIP spending, operating reserve levels, and repayment to the General Fund for the short-term loan to the Wastewater fund.

ATTACHMENTS:

1. Presentation of Draft Rate Study/Financial Plan for April 23, 2024 Meeting
2. Questions answered from October 3, 2023 Water Rate Study Presentation
3. Staff report regarding 5-Year Analysis, Toni Bertolero, dated April 11, 2024

- 4. Staff report regarding Staffing Analysis, Dante Del Prete and Toni Bertolero, dated March 30, 2024
- 5. General Fund Loan Information

APPROVALS:

Department Head Approval: Approval Date: 4/17/24

CEQA Determination (Planning): Approval Date: 4/17/24

The proposed action is not a project under the California Environmental Quality Act (CEQA)

Administrative Services (Financial) Approval Date: 4/17/24

Costs authorized in City Approved Budget: Yes No N/A

Account Code (f applicable) _____

City Attorney Approval: Approval Date: 4/11/24

City Manager Approval: Approval Date: 4/17/24



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The slide features a background image of a document with several items circled in blue and checked with a red pen. The text on the right side of the slide is as follows:

Agenda

- Utility Financial Plan Options
- Study Results
 - Water Rates
 - Wastewater Rates
- Bill Impacts and Bill Comparisons
- Next Steps

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Key Points on Proposed Utility Rates



Proposed three-tier water use rate alternative for Single Family Residential Customers- improves affordability at low-to average use and provides a conservation price signal



Maintaining approximately 50% fixed cost revenue recovery provides the City with revenue stability.



Wastewater fixed charges are differentiated by wastewater flow patterns at each meter size to improve fairness and better align with how costs are incurred between wastewater users



Tiered water use rates, along with updated wastewater rates, moderates impacts to Single Family Residential customers with combined utility service (Greater than 75% of the customer base)

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Nearby Utility Comparison – Combined Water and Wastewater Service

Agency	Water ⁽¹⁾	Wastewater ⁽²⁾	Total Monthly Bill (FY 2024-2025)
Rohnert Park ⁽³⁾	\$55.28	\$51.62	\$106.90
Windsor ⁽³⁾	\$29.93	\$78.91	\$108.84
Sebastopol (Current)	\$45.01	\$69.24	\$114.24
Santa Rosa	\$46.62	\$75.77	\$122.39
Petaluma	\$51.05	\$79.26	\$130.31
Cloverdale	\$79.18	\$57.06	\$136.24
Cotati	\$50.10	\$90.54	\$140.64
Sebastopol Option 2	\$57.77	\$94.04	\$151.80
Sebastopol Option 1 (Staff Recommended)	\$63.22	\$103.45	\$166.67
Healdsburg	\$82.28	\$110.33	\$192.61
St. Helena	\$115.27	\$134.49	\$249.76
Calistoga	\$161.08	\$132.80	\$293.88

1) Average water use of 4,500 gallons per month

2) Average winter water use of 3,000 gallons per month

3) Rohnert Park and Windsor are currently conducting rate studies

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Rate Study Terms

- Financial Plan: How much money is needed each year to provide safe drinking water and to collect and treat wastewater
- Cost of Service: How utility costs are divided between classes of customers based on who is responsible for paying for what
- Rate Design: How different users pay for the cost to serve their water and wastewater service
- Fixed Charge: Charge that is the same each billing period and does not vary by the amount of water or wastewater used
- Variable Charge: Charge that varies by the amount of water or wastewater used
- CIP: Capital Improvement Plan for reinvestment in utility infrastructure
- Revenue Increase – the amount of revenue the water or wastewater fund require to be financially sustainable, this is different than a rate increase

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Rate Study Terms (Continued)

- Customer Class / Rate Class: customer types based on land use, demand patterns, and/or connection size
- SFR: Single Family Residential customer class
- Irrigation: customers with a metered connection dedicated to outdoor landscaping
- Commercial: All connections not classified as SFR or Irrigation providing domestic water service
- Proposition 218: California's legal framework for developing, adopting, and implementing utility rates

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Establishing Rates

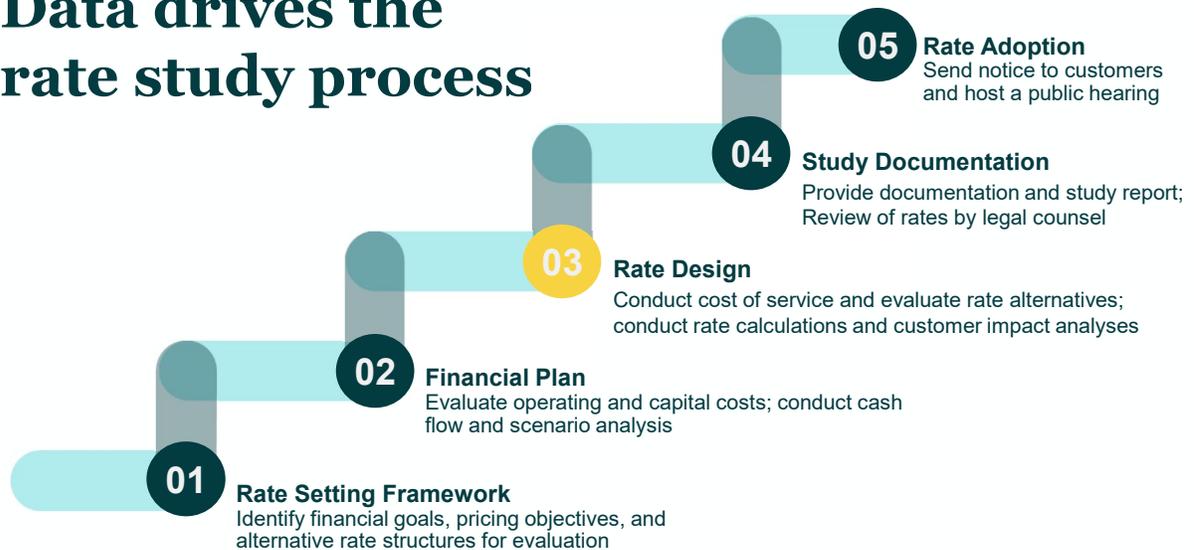
Data + Principles Guide Our Work



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Data drives the rate study process



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Guiding Principles



Financial Stability

The City must meet water and wastewater system financial obligations from its own rate revenues; the utility enterprises should be sustainable over time



Affordability of Service and Conservation

Allow customers to have more control over their bill and an incentive to conserve



Equitability

Fairness in rates between existing customers based on their use of the systems; and fairness between current and future users

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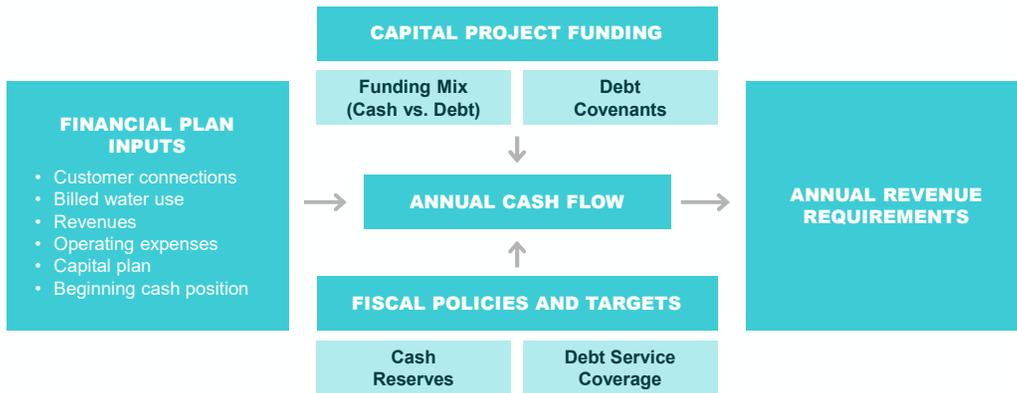
Financial Plans



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Financial Plan Elements



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Long-Range Financial Plan Drivers



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Aging Water and Sewer Infrastructure

Failed Water main valve installed in approximately 1970

Brick manhole constructed in 1925

Clay sewer pipe, failed connection joint tree root intrusion blockage

Corroded, metal water meter manifold

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Reserves Policy Discussion

- Maintain a minimum Operating Reserve level of 25% (Operating expenses plus debt service), which represents 90 days of cash
- 90 days of cash is considered the lowest threshold allowed for future access to credit
- Considering the bi-monthly billing cycle, a higher minimum should be explored in the next rate cycle

This Recommendation:

- Aims to be a starting point for getting the enterprise funds back on track
- Helps to mitigate otherwise higher rate increases

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Enterprise Fund Cash and Cash Flows

FY 2023-24	Water	Wastewater
Revenue	\$2,417,972	\$3,107,820
Operations & Maintenance Expenses	\$2,720,000	\$3,868,640
Net Revenue	-\$302,028	-\$760,820
Debt Service	\$380,704	\$178,656
Cash-Funded Capital	\$530,000	\$542,000
Net Cashflow	-\$1,212,732	-\$1,481,476
July 1, 2023 Beginning Cash Balance	\$1,225,855	\$392,668
June 30, 2024 Projected Ending Cash Balance	\$13,123	-\$1,088,808

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Financial Plan Options

- Option 1: Baseline
 - › Best engineering judgment
 - › Staff-preferred option
 - › CIP is minimum but based on best engineering judgment at current
 - Future Master Plan studies will better inform long-term CIP
 - › Staffing increase is needed based on best Public Works judgment
 - › Wastewater: Pays back GF loan and meets or works towards minimum 25% operating reserve
- Option 2: Lower Service Level
 - › Minimum service levels
 - › CIP is at an even lower level than Option 1 but “can live with” for now but still includes master plan.
 - › No staffing addition in year 5 but “can live with” for now
 - › Wastewater: Pays back GF loan and meets or works towards minimum 25% operating reserve
 - › **Increases risks of system failures and more frequent service interruptions**

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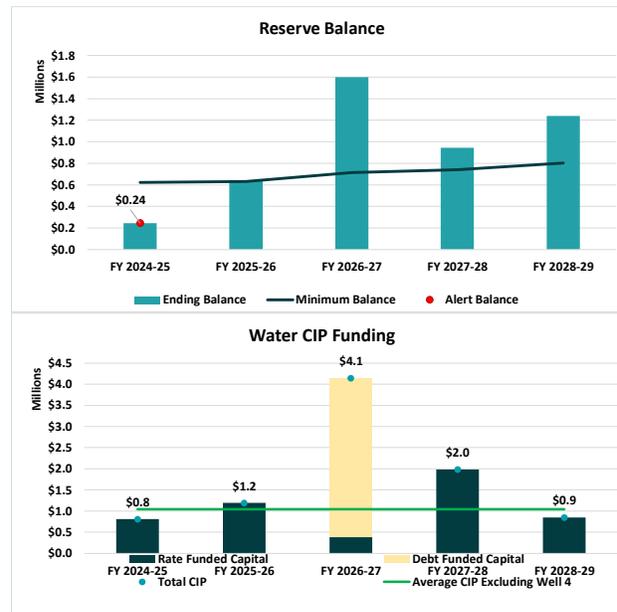
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Water Baseline Option 1

Fiscal Year	Revenue Adjustment	*Planned Bonds
FY 2024-25	50.0%	\$0
FY 2025-26	16.0%	\$0
FY 2026-27	1.5%	\$3,758,846
FY 2027-28	1.5%	\$0
FY 2028-29	1.5%	\$0

*Presumes debt is issued for the Well #4 replacement project.

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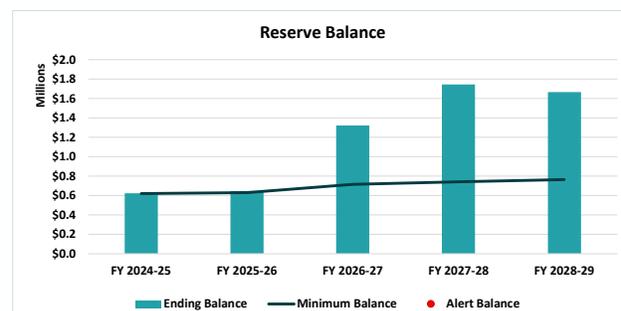
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Water Lower Service Level Option 2

Fiscal Year	Revenue Adjustment	Planned Bonds
FY 2024-25	37.0%	\$0
FY 2025-26	4.0%	\$0
FY 2026-27	4.0%	\$3,758,846
FY 2027-28	3.5%	\$0
FY 2028-29	3.5%	\$0

Presumes debt is issued for the Well #4 replacement project.

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Water Revenue Increase Comparisons

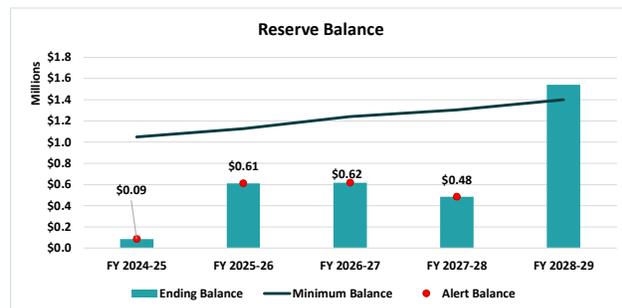
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Sebastopol – Baseline Option	50%	16%	1.5%	1.5%	1.5%
Sebastopol – Lower Service Option	37%	4%	4%	3.5%	3.5%
Healdsburg	21%	20%	13%	12%	12%
St Helena	28%	8%	8%	8%	8%
Calistoga	50%	12%	10%	6%	6%
Cloverdale	12%	12%	-	-	-
City of Sonoma	5%	5%	5%	5%	5%
Rohnert Park	5%	5%	5%	-	-
Santa Rosa	4%	-	-	-	-
Windsor	Study in Progress				

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Wastewater Baseline Option 1

Fiscal Year	Revenue Adjustment	GF Loan Repayment
FY 2024-25	65.0%	
FY 2025-26	14.0%	
FY 2026-27	11.0%	\$237,746
FY 2027-28	11.0%	\$237,746
FY 2028-29	2.0%	\$237,746



Presumes a ~\$1.1M loan from the general fund, repaid over 5 years, with 3% interest, starting in FY2026-27 (\$237,746/yr).

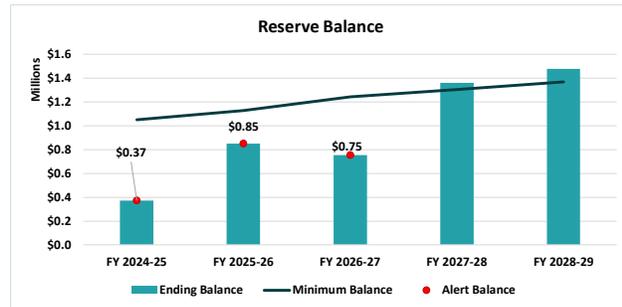
If 0% interest, could reduce the FY2027-28 revenue adjustment from 11% to 10%.

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Wastewater Lower Service Level Option 2

Fiscal Year	Revenue Adjustment	GF Loan Repayment
FY 2024-25	50.0%	
FY 2025-26	11.0%	
FY 2026-27	10.0%	\$237,746
FY 2027-28	10.0%	\$237,746
FY 2028-29	10.0%	\$237,746



Presumes a ~\$1.1M loan from the general fund, repaid over 5 years, with 3% interest, starting in FY2026-27 (\$237,746/yr).

If 0% interest, could reduce the FY2028-29 revenue adjustment from 10% to 9%.

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Wastewater Revenue Increase Comparisons

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Sebastopol – Baseline Option	65%	14%	11%	11%	2%
Sebastopol – Lower Service Option	50%	11%	10%	10%	10%
Healdsburg	18%	18%	15%	9%	5%
St Helena	50%	4%	4%	4%	4%
Calistoga	35%	25%	3%	3%	3%
Cloverdale	10%	10%	-	-	-
City of Sonoma	-	-	-	-	-
Rohnert Park	Study in Progress				
Santa Rosa	2%	-	-	-	-
Windsor	Study in Progress				

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Why We Need Immediate, Large Increases

- Current rate revenue does not meet Operating needs (O&M + Debt Service costs):
 - › Water requires > 25% increase
 - › Wastewater requires >30% increase
- Even higher increases are needed to meet capital spending and minimum reserves
- Water minimum reserve must be met before going for debt funding
- Wastewater needs to be able to repay General Fund borrowing
- Need additional staff to improve maintenance and save money on more costly, emergency repairs

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Why Option 1 is Staff's Recommendation

- Immediately addresses the operating deficit
- Provides funding for necessary capital expenditures on aging infrastructure
- Provides funding for preventative maintenance to reduce system failures and emergency repairs
- Reduces financial risk and systems risk
- Establishes self-sustaining enterprise funds

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Cost of Service and Rate Design Water

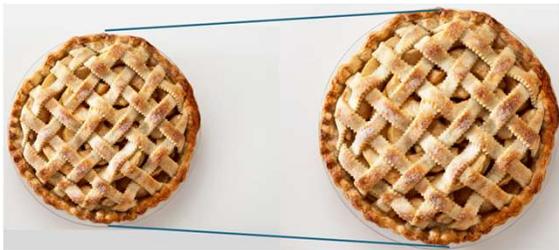


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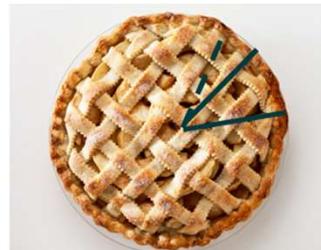
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Financial Plan vs. Cost of Service

Financial Plan



Cost of Service

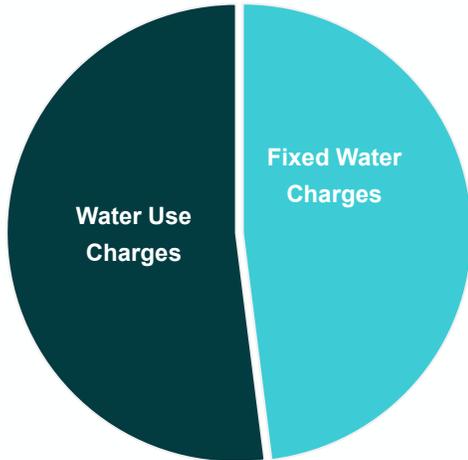


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Fixed & Variable Revenue Recovery - Water

Current Share of Water Rate Revenues

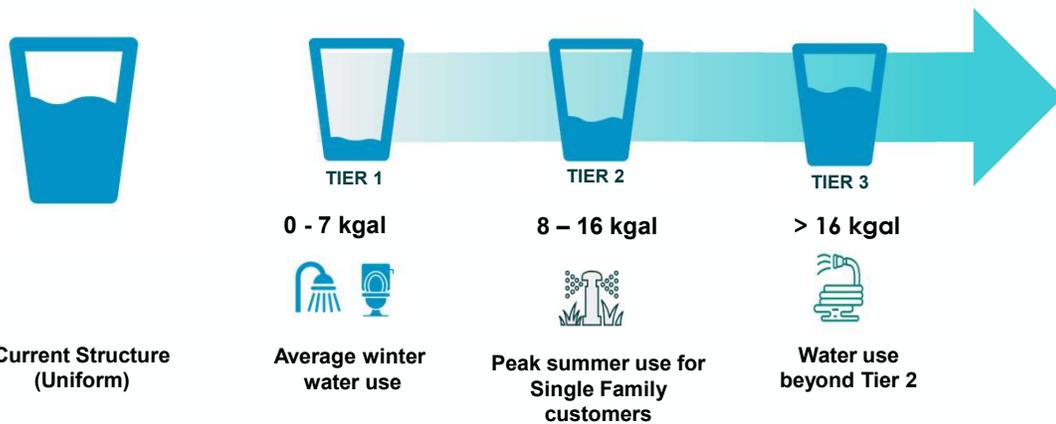


- Currently 48% fixed and 52% variable
- No proposed changes to fixed revenue recovery to ensure revenue stability
 - › Rates designed to keep the percentage of revenue from fixed charges the same

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Single Family Residential Proposed Water Use Rate Structure Modifications



1 kgal = 1,000 gallons (approximately 20 bathtubs)

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Proposed Single Family Residential Water Use Rates (Baseline Option 1)

Current FY 2023-24 Rate Water Use Charges (\$/kgal)			FY 2024-25 Rate Water Use Charges (\$/kgal)	
		➡	Tier 1 (0-7 kgal)	\$5.48
Uniform Rate (All Units)	\$4.52		Tier 2 (8-16 kgal)	\$6.99
			Tier 3 (>16 kgal)	\$9.71

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Proposed Non-Residential Water Use Rates (Baseline Option 1)

Current FY 2023-24 Rate Water Use Charges (\$/kgal)			FY 2024-25 Rate Water Use Charges (\$/kgal)	
Commercial	\$4.52	➡	Commercial	\$6.03
Irrigation	\$4.52		Irrigation	\$10.86

Customer Classes are defined and charged based on their demand characteristics

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Water Use Rate Comparison (\$/kgal) – Year One

Customer Class	Baseline Option 1	Lower Service Option 2
Residential		
Tier 1: 0 – 7 kgal	\$5.48	\$5.01
Tier 2: 8 – 16 kgal	\$6.99	\$6.39
Tier 3: > 16 kgal	\$9.71	\$8.87
Commercial	\$6.03	\$5.51
Irrigation	\$10.86	\$9.92

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Five-Year Schedule of Water Rates – Baseline Option

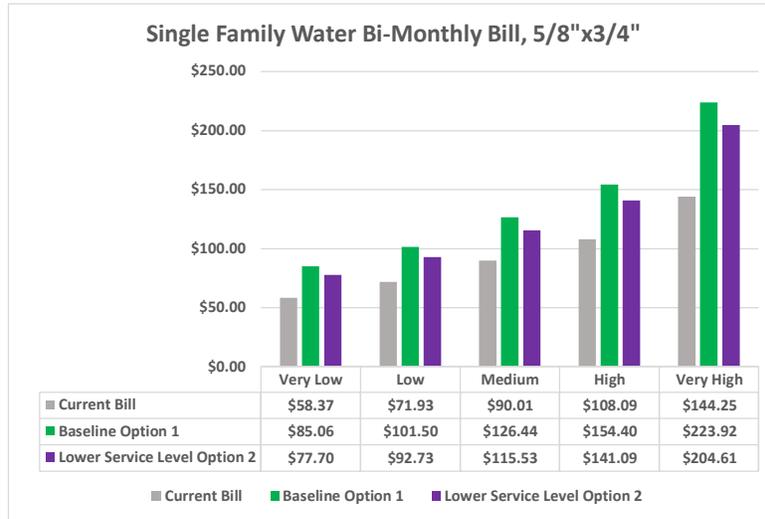
Rate Schedule - Fixed Bi-Monthly						
Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8"x3/4" & 3/4"	\$49.33	\$74.10	\$85.96	\$87.25	\$88.56	\$89.89
1"	\$82.41	\$122.57	\$142.19	\$144.33	\$146.50	\$148.70
1.5"	\$164.13	\$243.71	\$282.71	\$286.96	\$291.27	\$295.64
2"	\$262.77	\$389.09	\$451.35	\$458.13	\$465.01	\$471.99
3"	\$575.37	\$849.44	\$985.36	\$1,000.15	\$1,015.16	\$1,030.39
4"	\$821.78	\$1,527.87	\$1,772.33	\$1,798.92	\$1,825.91	\$1,853.30

Note: Single family with 1" meters for fire service are charged at the 3/4" rate.

Rate Schedule – Water Use (\$/kgal)						
Customer Class	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
Residential						
Tier 1: 0 - 7 kgal	\$4.52	\$5.48	\$6.36	\$6.46	\$6.56	\$6.66
Tier 2: 8 - 16 kgal	\$4.52	\$6.99	\$8.11	\$8.24	\$8.37	\$8.50
Tier 3: > 16 kgal	\$4.52	\$9.71	\$11.27	\$11.44	\$11.62	\$11.80
Commercial	\$4.52	\$6.03	\$7.00	\$7.11	\$7.22	\$7.33
Irrigation	\$4.52	\$10.86	\$12.60	\$12.79	\$12.99	\$13.19

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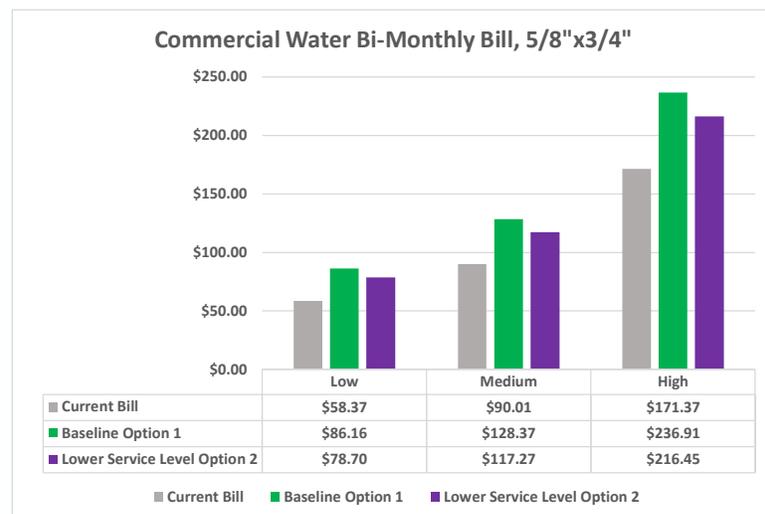
Single Family Water Bill Impact – Year One



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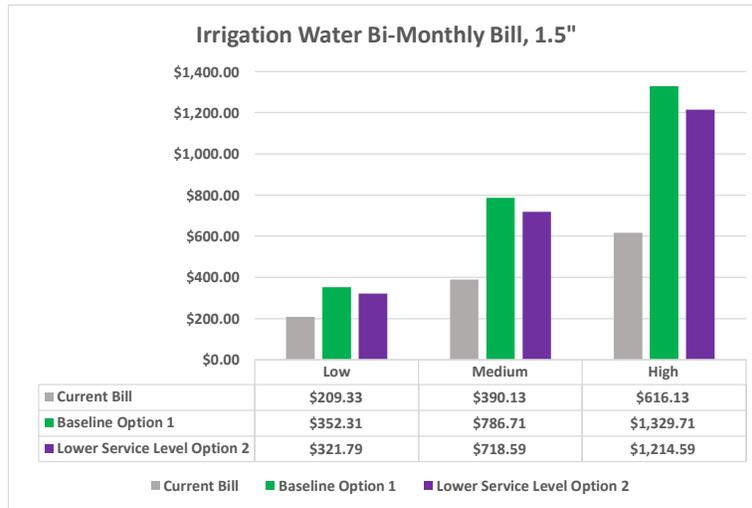
Commercial Water Bill Impact – Year One



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Irrigation Water Bill Impact – Year One



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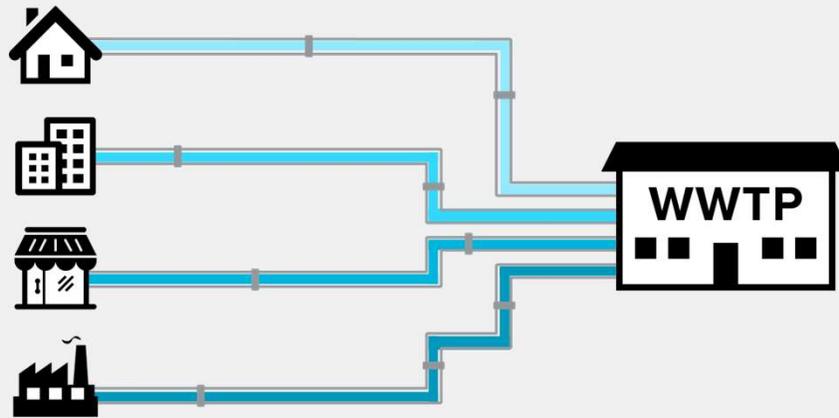
Cost of Service and Rate Design Wastewater



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Wastewater Cost Of Service Analysis

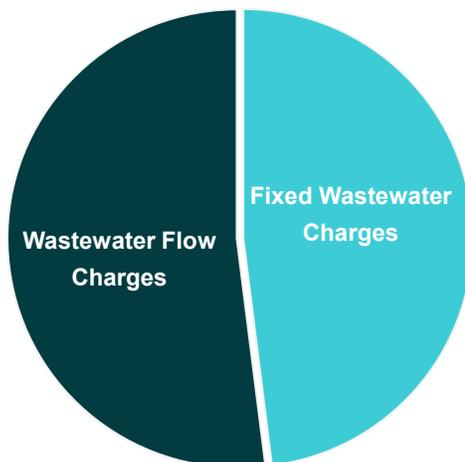


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Fixed & Variable Revenue Recovery - Wastewater

Current Share of Wastewater Rate Revenues



- Currently 48% fixed and 52% variable
- No proposed changes to fixed revenue recovery to ensure revenue stability
 - › Rates designed to keep the percentage of revenue from fixed charges the same

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Proposed Rate Structure Modifications

Meter Size	Current Ratio	Proposed Ratio
5/8"x3/4" & 3/4"	1.00	1.00
1"	1.37	2.71
1.5"	3.33	6.90
2"	5.33	8.83
3"	11.67	21.98
4"	21.00	66.22

- Currently fixed charges are differentiated by the size and capacity of the water meter
- Proposed fixed charges will be differentiated based on actual wastewater flow patterns at each meter size
- This proposal will improve fairness and better align with how costs are incurred between wastewater users

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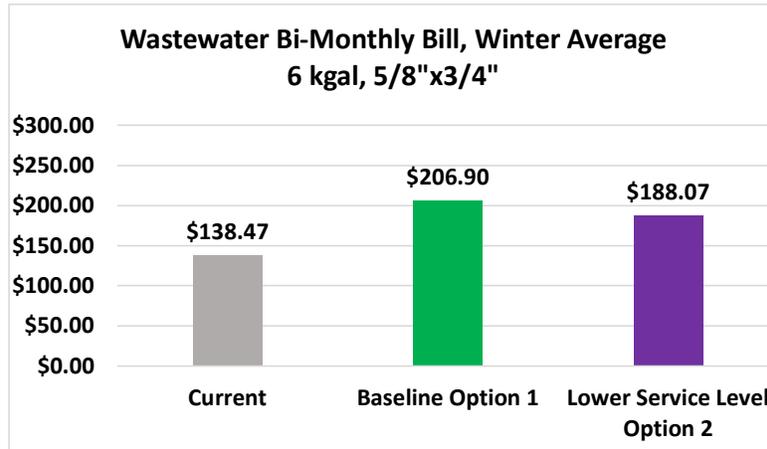
Five-Year Schedule of Wastewater Rates – Baseline Option 1

Fixed Bi-Monthly Charge						
Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8x3/4" & 3/4"	\$76.61	\$104.78	\$119.45	\$132.59	\$147.18	\$150.13
1"	\$127.97	\$284.18	\$323.97	\$359.61	\$399.17	\$407.16
1.5"	\$254.86	\$722.92	\$824.13	\$914.79	\$1,015.42	\$1,035.73
2"	\$408.03	\$925.13	\$1,054.65	\$1,170.67	\$1,299.45	\$1,325.44
3"	\$893.44	\$2,303.19	\$2,625.64	\$2,914.47	\$3,235.07	\$3,299.78
4"	\$1,276.06	\$6,937.89	\$7,909.20	\$8,779.22	\$9,744.94	\$9,939.84

Volumetric Rate, \$/kgal						
	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
All Customer Classes	\$10.31	\$17.02	\$19.41	\$21.55	\$23.93	\$24.41

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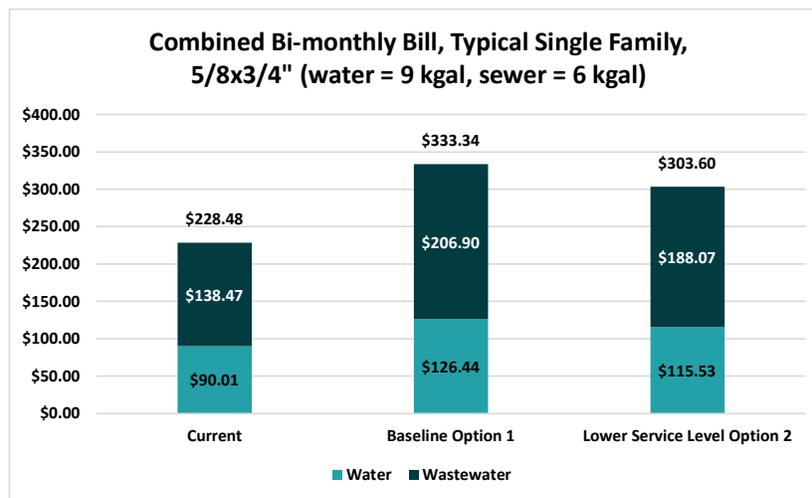
Single Family Average Wastewater Bill – Year One



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Single Family Combined Bill, FY 2024-25



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Next Steps



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Rate Study Next Steps

- 1**
Request Council approve starting the Prop 218 process
April 23 City Council Meeting
- 2**
Notice Postmark date by
May 3
- 3**
45 Day protest period
May 3 through June 18
- 4**
Hold Public Hearing to receive public comments, count protests, and consider adoption of water and wastewater rates
June 18 City Council Meeting
- 5**
Year One Rate Implementation
July 1, 2024

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Suggested Motion

- **Move to**
 - › Accept the Staff recommended Water Baseline financial plan and associated rates
 - › Accept the Staff recommended Wastewater Baseline financial plan and associated rates
 - › Direct Staff to proceed with Proposition 218 notification and rate implementation processes
 - › Schedule a Public Hearing for June 18, 2024
- **Or,**
 - › Accept the alternative Water Lower Service Level financial plan and associated rates
 - › Accept the alternative Wastewater Lower Service Level financial plan and associated rates
 - › Direct Staff to proceed with Proposition 218 notification and rate implementation processes
 - › Schedule a Public Hearing for June 18, 2024
- **Or,**
 - › Direct staff to return with alternative rate proposals. Note that doing so will affect the schedule for the public hearing date.

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Thank you

Contacts:Kevin Kostiuk / kkostiuk@raftelis.comMelissa Elliott / melliott@raftelis.comTheresa Jurotich / tjurotich@raftelis.com

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Attachment 2

Water Rate Study

Questions and Answers from Council Meeting dated October 3, 2023

1. What went wrong to get us to where we are today with the Enterprise funds?

Response: In summary, expenses were higher than revenues and both funds have been in a deficit. The Water Fund cash balance dropped from \$2.4 million at the beginning of FY 2018-19 to \$1.2 million by the end of FY 2022-23 mainly due to planned drawdown of the reserves and differences in projected versus actual expenses described in the previous 2019 Water Rate Study prepared by Willdan ("2019 Study). For the Wastewater Fund, the cash balance dropped from \$2.5 million at the beginning of FY 2018-19 to \$393 thousand by the end of FY 2022-23 mainly due to planned drawdown of the reserves, and lower than projected revenues. The planned drawdown of the reserves for both funds was implemented, presumably to reduce the rate increases. See Attachment 3, Staff Report regarding a 5-year analysis, for a more detailed response.

2. Would monthly billing save money or cost the City more? Provide a review of the costs of the two different types of billing.

Response: Monthly billing would increase costs by approximately \$106,000. This includes \$20,000 year in materials, \$11,000/year in time from Public Works, and \$75,000 to add a ½ time accountant. This would increase bills by about \$2.80/month per customer. Monthly billing provides better cash flow management since revenues are only one month, versus two months in arrears. For residents, it helps them budget and pay when billed monthly as this is a typical billing cycle of other household bills. If Council chooses to change to monthly billing, staff will perform a more robust estimate of the costs and bring to Council for final approval before a change is made.

3. Provide examples of new estimated bills in comparison to other cities in Sonoma County.

Response: See the table that follows for comparisons for nearby cities that operate both water and sewer utilities. The charges shown are based on a monthly basis (not bi-monthly) for ease of comparison with other cities for a typical single-family residential unit. In summary, if Option 1 is implemented, Sebastopol's monthly amount for water and sewer will be 23% higher than nearby agencies. If Option 2 is implemented, the monthly amount will be 17% higher than nearby agencies.

Sonoma County cities

Water and Sewer rate comparisons for typical Single-Family Residential (SFR)

	Water (1)	Sewer (2)	Total Monthly bill	Sebastopol (Exist) v. Nearby cities
Sebastopol (Exist)	\$ 47.27	\$ 64.08	\$ 111.35	na
Sebastopol Option 1	\$ 64.45	\$ 94.94	\$ 159.39	43%
Sebastopol Option 2	\$ 61.24	\$ 86.30	\$ 147.54	33%
Cloverdale	\$ 63.00	\$ 57.06	\$ 120.06	8%
Cotati	\$ 52.52	\$ 84.32	\$ 136.84	23%
Healdsburg	\$ 65.90	\$ 80.62	\$ 146.52	32%
Rohnert Park	\$ 55.39	\$ 52.14	\$ 107.53	-3%
Petaluma	\$ 54.66	\$ 72.83	\$ 127.48	14%
Santa Rosa	\$ 48.60	\$ 67.75	\$ 116.35	4%
Windsor	\$ 37.62	\$ 68.35	\$ 105.97	-5%
Avg of nearby cities	\$ 53.96	\$ 69.01	\$ 122.96	
Sebastopol Option 1 v. Nearby cities	16%	27%	23%	
Sebastopol Option 2 v. Nearby cities	12%	20%	17%	

(1) Based on typical SFR average water use of 5,000 gal/month

(2) Based on typical SFR winter average of 2,500 gal/month

4. Provide an assessment of a reduced reserve level in order to make any increases more affordable.

Response: Both funds are estimated to be operating in the red in FY 2024-25. The Water and Wastewater Financial Plan (Plan) shown in Attachment 1 includes a detailed proposal to increase revenues, through rate increases, in order to meet the City’s reserve policy. Meeting the reserve policy is important to have funds available for emergency repairs and to qualify for debt financing, which we anticipate needing.

5. What are the priorities in the CIP? What is vital? What can be delayed? Provide an analysis.

Response: The priorities in the CIP are listed below and the projects are shown in Tables 4-7 in the agenda report. Priority 1 projects cannot be delayed whereas priority 2 and 3 can be deferred. The draft Financial Plan (Attachment 1) includes an analysis and a 5-year CIP program showing priority 2 and 3 projects pushed out to years 4 and 5 to keep rate increases lower, particularly in the earlier years.

- Priority 1 – projects mandated by State and Federal regulations.
- Priority 2 – projects that save future O&M costs.
- Priority 3 – projects that provide system reliability.

6. Provide a rate increase scenario with no CIP, no new staff, and maintaining a 25% reserve.

Response: The Draft Financial Plan includes two options. Option 1 is the baseline option that identifies what is needed and includes additional staffing and some CIP. Option 2 is a reduced level of service given the inadequate state of the Enterprise fund cash balances and includes less staffing and a lower level of CIP. Please refer to the Financial Plan in Attachment 1. Option 2 was developed because Council requested an option with zero staffing and zero CIP. Staff could not, in its judgment, come up with such an option. For example, Well 4 replacement is State-mandated and needs to be implemented.

7. Provide full analysis and justification for the additional staffing for water and sewer.

Response: A memo, prepared jointly by Dante Del Prete and Toni Bertolero, provides the justification for the two positions (Attachment 4).

8. Can we charge more for water sold to trucks? Provide a review of those rates.

Response: *The City can reasonably charge additional fees and charges based on the cost of service for water sold to water trucks. The proposed water rate for water trucks as listed in the draft Financial Plan (Attachment 1) will include an administrative charge of 10% of the water charge and this charge is over and above what in-city water customers pay to cover the City's added cost of providing the service. This proposed new charge is not parcel-based and therefore does not need to be included in the Prop. 218 noticing. The impact on water rates would be negligible.*

9. Where is the oversight on the water funds? Who's responsible for the mistakes in projections?

Response: *Under the Sebastopol Code, the City Manager is responsible for keeping the City Council advised as to the financial conditions and needs of the City, and is responsible for preparing a budget, in consultation with department heads. The Director of Finance is responsible for keeping the City Manager advised as to the financial condition of the City and recommending such measures as she deems necessary or expedient for the proper control and operation of the City's finances.*

10. Elaborate on why the prior rate studies were inadequate?

Response: *The 2019 rate study was prepared by a professional specializing in rate studies and utilized generally accepted rate setting principles established by the American Water Works Association and the Water Environment Foundation. The 2019 study was based on data provided by City staff and should have been a reasonable estimate for projected revenues and expenditures. For a more detailed explanation, refer to Attachment 3, Staff Report from Toni Bertolero.*

11. What are the annual losses of the Enterprise funds in both the water and sewer funds in the past five years?

Response: *see chart below. The chart reflects the annual budget deficit (Revenues minus Expenses). See Attachment 3, staff memo regarding 5-year water analysis for a detailed explanation.*

Fiscal Year	Water	Sewer
2018-19	316,905	(173,238)
2019-20	(81,264)	(623,776)
2020-21	(115,579)	(642,767)
2021-22	(158,721)	(839,564)
2022-23	(115,316)	(712,819)
Total	(153,975)	(2,992,164)

12. What are the current Enterprise fund reserves?

Response: *There are currently no cash reserves for the Wastewater fund. We project \$13,123 in water reserves at the end of June. See Attachment 3, staff memo regarding 5-year water analysis for more details.*

13. Provide details on any rate increases, beyond the summary. Show the math.

Response: *The details and analysis of the proposed revenue and rate increases are found in the Plan (Attachment 1).*

14. Is a 4% escalator adequate to cover CIP?

Response: *The Plan increased the escalator from 4% to 6%. It is believed that this increase is a more realistic escalator to use for CIP projects.*

15. Show water rate increases and losses for the past 5 years.

Response: Rate increases are shown in the table that follows. The losses are shown under the response to Question #11 above.

Table 1-1 Projected Rate Revenue Increases Fiscal Years Ending June 30		
Description	Water Rate Revenue Increases	Sewer Rate Revenue Increases
2018-19	0.0%	0.0%
2019-20	4.0%	7.0%
2020-21	3.0%	5.0%
2021-22	3.0%	4.5%
2022-23	2.0%	4.5%

16. What is the G&A allocation and how is it determined?

Response: G&A allocation is assessed on the water and sewer funds to reimburse the General Fund for central oversight, management and support services. The current FY 2023-24 allocations are based on analysis from 2001-- over 20 years ago. The recently updated G&A allocation study results will be effective July 1, 2024. It will reduce expenses charged to the Water and Sewer Funds by approximately \$714,000 (total), with the General Fund absorbing those costs. The recent G&A study was approved by Council at their February 20, 2024 meeting.

17. Can we reassess rates annually?

Response: Yes, rates can be reassessed annually. The resolution adopting new rates can specifically require the City Manager and the Administrative Services Director to include a rate assessment during the annual budget process.

18. What would be the process of discretionary reductions?

Response: Budget reductions can be brought forward by the City Manager and the City Council during the budget process or anytime during the year. Prop 218 allows the City to adopt a rate schedule for five years. At any time, if the City finds that it does not require a rate increase or wishes to decrease a rate in the schedule, it can do so. But it cannot increase a rate without going through the Prop 218 public noticing process. A best practice that staff will be implementing is to bring rates forward for discussion to confirm the direction for the coming year, during the annual budget process.

19. In January 2022 the City borrowed \$5 million for energy efficiency projects, \$2.2 million paid for smart water meters. Where did the remaining \$2.8 million go towards? Where does the debt service for the \$5 million loan come out of?

Response: The debt service for the \$5 million loan is \$374,650. The funds for the debt service come from the Water Fund (\$168,593), Sewer Fund (\$119,888), and General Fund (\$86,169). The \$2.8 million paid for Wells 6 and 8 (0.5 million), Morris Street Sewer Pump Station (\$1.1 million) and City Buildings and Facilities (\$1.2 million).



Memorandum

Date: April 11, 2024
To: Don Schwartz, City Manager
From: Toni Bertolero, Engineering Department Consultant
Re: Analysis of Water and Water Revenues and Expenditures for Past Five Years
Cc: Mary Gourley, Assistant City Manager/City Clerk
Ana Kwong, Administrative Services Director

Purpose

This memo will provide information regarding the historical actual cash balances of the Water and Wastewater funds as compared with the projections and estimates from the most recent study entitled *Water and Sewer Rate Study*, prepared by Willdan Financial Services, dated 2019 (“2019 Study”). The purpose of providing this comparison is to help answer the question raised by Council “how did we get here?” This staff report was prepared in conjunction with the Finance Department providing data from the City’s financial records. This report covers a 5-year comparative analysis from Fiscal Year (FY) 2018-19 to FY 2022-23.

Summary

For the Water Fund, the actual total revenues collected were nearly aligned with the projections from the 2019 Study, deviating by less than 1.2 percent from the total projected revenues over the 5-year period. However, actual total expenses exceeded the projections by 7.9 percent. Consequently, the cash balance declined from **\$2.4 million** at the start of FY 2018-19 to **\$1.2 million** by the end of FY 2022-23. This decrease was primarily due to using reserves presumably aimed at minimizing rate increases, coupled with higher expenses compared to those projected in the 2019 Study. The cash balance is estimated to be \$65 thousand by the end of this fiscal year.

For the Wastewater Fund, the total revenue collected fell short of the 2019 Study's projected revenues by 12.5% over the five-year period. The reason for this significant variance remains unclear, particularly as the current revenues are on par with those from FY 2016-17. On the expenditure side, total expenses were 9.2% lower than projected. This can be attributed to cutbacks in capital projects and Subregional charges. The cash balance saw a reduction from **\$2.5 million** at the beginning of FY2018-19 to **\$393 thousand** by the end of FY 2022-23, primarily due to depletion of reserves presumably aimed at curbing rate increases, and the disparity between projected and actual revenues. The cash balance is estimated to be negative \$1.05 million by the end of this fiscal year.

Analysis

This report conducts a comparative review of actual revenues and expenses against the projections for the five-year period outlined in the 2019 Study, spanning from FY2018-19 through FY2022-23. The analysis begins with an examination of the Water Fund, followed by an assessment of the Wastewater Fund.

Water Fund Projected vs. Actual

Table 1 shows compares projected water revenues/expenses from the 2019 Study with actual water revenues/expenses. During the 5-year period, revenue projections were close to actual revenues collected with a 5-year total difference of \$150,034 less revenue collected than originally projected. Actual expenses on the other hand, were much higher than what was projected in the 2019 Study by \$991,963. A combination of less actual revenues collected than originally projected and actual expenses being higher than projected in the 2019 Study, resulted in a drawdown from the fund reserves over the 5-year period of \$1,141,997 (\$150,034+\$991,963).

Table 1: Water Fund – Projected vs. Actual (\$)

	2018-19	2019-20	2020-21	2021-22	2022-23	
Revenues						Total
Projected	\$ 2,279,000	\$ 2,312,333	\$ 2,465,183	\$ 2,549,000	\$ 2,610,945	\$ 12,216,461
Actual	\$ 2,277,016	\$ 2,340,610	\$ 2,543,974	\$ 2,430,091	\$ 2,474,736	\$ 12,066,427
Difference	\$ (1,984)	\$ 28,277	\$ 78,791	\$ (118,909)	\$ (136,209)	\$ (150,034)
Expenses						
Projected	\$ 2,679,542	\$ 2,325,610	\$ 2,353,081	\$ 2,400,575	\$ 2,762,260	\$ 12,521,068
Actual	\$ 2,417,756	\$ 2,434,034	\$ 2,840,904	\$ 2,708,958	\$ 3,111,379	\$ 13,513,031
Difference	\$ 261,786	\$ (108,424)	\$ (487,823)	\$ (308,383)	\$ (349,119)	\$ (991,963)

Table 2 shows a comparison of average annual expenses from the 2019 Study with actual expenses, by category (operating & maintenance, cost allocation, debt service, and cash spending for the Capital Improvement Program (CIP). Average CIP expenses were slightly less than originally projected, however, actual O&M costs each year were \$134,087 higher than projected, and debt service was \$54,909 higher each year than projected.

Table 2: Water Fund – Average Expenses FY 2018-19 through FY 2022-23 (\$)

Expenses Category	Projection	Actual	\$ Actual minus Projection	% Difference	Comments
Operating & Maintenance	1,021,218	1,155,305	134,087	13.1%	Due to inflation and pandemic
Cost Allocation	1,033,101	1,070,625	37,524	3.6%	
Debt Service	285,334	340,243	54,909	19.2%	Did not account for new debt
Capital Projects	164,560	136,433	(28,127)	-17.1%	Some projects deferred
Total	2,504,214	2,702,606	198,393	7.9%	7.9% overall increase

Water Fund Cash Balance

The 2019 Study, Table 4-8, shows the beginning fund balance in FY 2018-19 was \$2,368,000 and by FY 2022-23 was projected to be \$1,875,000, showing a drawdown of reserves of \$492,000, to keep the rate increases low.

Table 4-8 Projected Net Operating Fund Results Fiscal Years 2018-19 to 2022-23 (\$ thousands)					
Description	18-19	19-20	20-21	21-22	22-23
Water					
Beginning Cash Balance	\$2,368	\$1,779	\$1,765	\$1,877	\$2,026
Total Revenue	2,279	2,312	2,465	2,549	2,611
Operating Expenses	<u>2,098</u>	<u>2,018</u>	<u>2,053</u>	<u>2,114</u>	<u>2,178</u>
Net Revenue	181	295	413	435	433
<u>Less:</u>					
CIP, Debt Service (Existing) and Loans	<u>770</u>	<u>308</u>	<u>300</u>	<u>286</u>	<u>585</u>
Net Cash Flow	(589)	(13)	112	149	(151)
Ending Cash Balance	\$1,779	\$1,765	\$1,877	\$2,026	\$1,875

The actual financials indicate a variance of **\$1,141,997** between revenues and expenses, which would result in a cash balance decline to **\$1,226,003** by the end of FY 2022-23 (Table 2). The water fund's cash reserves have been depleted due to deficit spending since FY 2019-20. To maintain financial stability, it would have been necessary to implement rate increases starting earlier in FY 2023-24. The actual cash balances on hand over the 5-year period are shown in Table 3 below. An estimate for the ending balance for this fiscal year is included.

Table 3: Water Fund Actual Cash Balance

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 Estimated
Beginning Balance	\$ 2,368,000	\$ 2,209,148	\$ 2,176,800	\$ 2,251,155	\$ 2,078,127	\$ 1,226,003
Revenues	\$ 2,277,016	\$ 2,340,610	\$ 2,543,974	\$ 2,430,091	\$ 2,474,736	\$ 2,433,200
Expenses	\$ (2,417,756)	\$ (2,434,034)	\$ (2,840,904)	\$ (2,708,958)	\$ (3,111,379)	\$ (3,594,102)
Net of Accrual *	\$ (18,112)	\$ 61,076	\$ 371,285	\$ 105,839	\$ (215,481)	\$ -
Ending Balance	\$ 2,209,148	\$ 2,176,800	\$ 2,251,155	\$ 2,078,127	\$ 1,226,003	\$ 65,101

* "Net of accrual" refers to all cash-related activities that have not been settled by the end of the year. This means it includes any money that is expected to be received or paid but hasn't been physically exchanged yet. Consider it as accounting for money that is in transit or scheduled but not yet in the bank account.

Wastewater Fund Projected vs. Actual

Table 4 compares the projections from the 2019 Study with actual revenues/expenses. During the 5-year period, revenue projections were \$2.1 million less than projected. Actual expenses on the other hand, were much less than what was projected in the 2019 Study by \$1.7 million. The actual revenues collected were lower than anticipated, and the actual expenses incurred were also below the projections of the 2019 Study, resulting in a drawdown from the fund reserves over the 5-year period of **\$411,885** (\$2,138,978-1,727,093).

Table 4: Wastewater Fund – Projected vs. Actual (\$)

	2018-19	2019-20	2020-21	2021-22	2022-23	
Revenues						Total
Projected	\$ 3,038,000	\$ 3,143,525	\$ 3,474,018	\$ 3,643,371	\$ 3,822,127	\$ 17,121,041
Actual	\$ 3,140,598	\$ 2,926,837	\$ 2,898,913	\$ 2,997,665	\$ 3,018,050	\$ 14,982,063
Difference	\$ 102,598	\$ (216,688)	\$ (575,105)	\$ (645,706)	\$ (804,077)	\$ (2,138,978)
Expenses						
Projected	\$ 4,047,232	\$ 3,160,793	\$ 3,703,044	\$ 3,875,152	\$ 3,887,935	\$ 18,674,156
Actual	\$ 3,128,656	\$ 3,217,877	\$ 3,383,720	\$ 3,465,294	\$ 3,751,516	\$ 16,947,063
Difference	\$ 918,576	\$ (57,084)	\$ 319,324	\$ 409,858	\$ 136,419	\$ 1,727,093

Table 5 shows the average expenses by category across the five-year period. It offers a side-by-side comparison of projected and actual expenses, broken down into Operations & Maintenance (O&M), subregional, cost allocation, debt service, and Capital Improvement Program (CIP) cash outlays. During this period, the actual total expenses were considerably lower than projected, mainly due to \$324,993 in deferred CIP projects and \$83,374 in reduced Subregional charges through the use of Sebastopol’s portion of Subregional capital cash reserves. Notably, actual O&M costs were \$65,124 higher than projected, and debt service expenses surpassed expectations by \$379,298.

Table 5: Wastewater Fund – Average Expenses FY 2018-19 through FY 2022-23 (\$)

Expenses Category	Projection	Actual	\$ Actual minus Projection	% Difference	Comments
Operating & Maintenance	580,720	645,844	65,124	11.2%	Due to inflation and pandemic
Subregional	1,750,094	1,666,720	(83,374)	-4.8%	Tapping subregional reserve to keep cost down
Cost Allocation	931,013	871,685	(59,327)	-6.4%	Allocation reduction due to lower expenses in general fund
Debt Service	147,448	526,746	379,298	257.2%	Did not account for new debt
Capital Projects	393,162	68,168	(324,993)	-82.7%	Deferred CIP to future years
Total	3,802,437	3,779,164	(23,273)	-0.6%	

Wastewater Fund Cash Balance

According to Table 4-8 in the 2019 Study, the starting cash balance for FY 2018-19 was \$2,543,000, and it was projected to decrease to \$936,000 by FY 2022-23. This represents a reserve drawdown of \$1,607,000 over five years, which was likely an effort to minimize rate increases despite the projected revenues and expenses.

The initial cash balance for FY 2018-19 was actually \$2,358,000, which is \$185,000 less than previously stated. This adjustment would decrease the projected ending cash balance from \$936,000 to \$751,000.

Table 4-8 Projected Net Operating Fund Results Fiscal Years 2018-19 to 2022-23 (\$ thousands)					
Description	18-19	19-20	20-21	21-22	22-23
Sewer					
Beginning Cash Balance	\$2,543	\$1,534	\$1,517	\$1,288	\$1,045
Total Revenue	3,038	3,144	3,474	3,643	3,822
Operating Expenses	<u>2,342</u>	<u>2,429</u>	<u>2,607</u>	<u>2,800</u>	<u>3,009</u>
Net Revenue	696	715	867	843	813
Less:					
CIP, Debt Service (Existing & New) and Loans	<u>1,706</u>	<u>732</u>	<u>1,096</u>	<u>1,086</u>	<u>922</u>
Net Cash Flow	(1,009)	(17)	(229)	(243)	(109)
Ending Cash Balance	\$1,534	\$1,517	\$1,288	\$1,045	\$936

The shortfall in projected revenue has resulted in a substantial decrease of **\$1,965,000** (\$14,982,063-\$16,947,063) in the cash balance, leading to a sharp decline in cash to **\$393,000** by FY 2022-23. The sewer fund would have benefited from a rate increase in FY 2023-24. Without such an increase, the sewer fund is now operating at a cash deficit and has required an infusion of cash. The actual cash balances over the 5-year period are shown in Table 6 below. An estimate of ending cash balance for the current fiscal year is included.

Table 6: Wastewater Fund Actual Cash Balance

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 Estimated
Beginning Balance	\$ 2,358,000	\$ 2,106,990	\$ 1,951,908	\$ 1,599,171	\$ 1,073,249	\$ 392,668
Revenues	\$ 3,140,598	\$ 2,926,837	\$ 2,898,913	\$ 2,997,665	\$ 3,018,050	\$ 3,122,600
Expenses	\$ (3,128,656)	\$ (3,217,877)	\$ (3,383,720)	\$ (3,465,294)	\$ (3,751,516)	\$ (4,569,015)
Net of Accrual *	\$ (262,952)	\$ 135,958	\$ 132,070	\$ (58,293)	\$ 52,885	\$ -
Ending Balance	\$ 2,106,990	\$ 1,951,908	\$ 1,599,171	\$ 1,073,249	\$ 392,668	\$ (1,053,747)

* "Net of accrual" refers to all cash-related activities that have not been settled by the end of the year. This means it includes any money that is expected to be received or paid but hasn't been physically exchanged yet. Consider it as accounting for money that is in transit or scheduled but not yet in the bank account.



Memorandum:

Date: March 30, 2024
 To: Don Schwartz, City Manager
 From: Dante Del Prete, Public Works Superintendent
 Toni Bertolero, Engineering Department Consultant
 Re: Staffing Needs for Water and Wastewater divisions
 Cc : Mary Gourley, Ana Kwong

Introduction

Public Works maintains and operates the following Water and Wastewater systems:

- 37 miles of water mains
- 1,422 water valves
- 434 fire hydrants
- Four (4) water supply wells
- 497 backflow devices
- 2,982 water meters
- Over 75,000 feet of water services
- One (1) full time staff (FTE) for water system maintenance
- 32 miles of sewer mains
- 595 sewer manholes
- Two (2) sewer lift stations
- Over 70,000 feet of sewer laterals
- One (1) full time staff (FTE) for wastewater system maintenance

Public Works is highly efficient and flexible with cross-trained staff that can maintain water, sewer, storm drain and street facilities. The cross-training allows staff to be used where the need occurs and no “down time” is experienced. This flexibility is vital since there is only 1.0 FTE for water and 1.0 FTE for wastewater system maintenance. In comparison, Cotati is a similar sized city and system, and they have 1.3 FTE for water and 1.3 FTE for wastewater system maintenance.

Both the Water and Wastewater systems are highly regulated by the State and insufficient maintenance can lead to State violations and jeopardize the quality of the City’s drinking water supply, and negatively impact the environment due to sewer spills.

Purpose and Need

Water and wastewater facilities maintenance is being deferred because of the lack of staffing. This results in more emergency repairs that oftentimes must be contracted out. Furthermore, the City's Water and Wastewater infrastructure is aging and due to budget constraints and a desire to keep rates low, capital improvements have been deferred. This also results in more and more complex emergency repairs. It is critical to maintain a robust number of maintenance staff to address the preventive maintenance and emergency repairs. Regular maintenance is essential for identifying and addressing issues before they escalate into major problems, saving capital dollars.

Discussion

A proactive maintenance plan involves locating and repairing leaks to minimize water losses. This reduces operational and energy costs and supports water conservation. Adequate maintenance is crucial to comply with environmental regulations, preventing fines and penalties. Investing in maintenance to meet regulatory requirements helps avoid potential litigation costs and contributes to customer satisfaction by preventing service disruptions and ensuring water quality.

Continued deferred maintenance can severely affect our ability to provide basic water and sewer service. For example, it will take longer to repair leaks in either system. In some cases, we may need to shut down part of the water system and in those situations, residents cannot access water. Such water service impacts could last for many hours or more. Having a severely aging sewer system increases the potential for pipe leaks and breaks resulting in sewage spills that could contaminate the environment. Such spills are subject to costly fines from the State and open the City to lawsuits from third party litigants such as the River Watch organization.

Sebastopol's aging sewer system faces challenges with excessive Inflow & Infiltration (I&I), particularly during significant rainfall events. I&I occurs when groundwater and storm water seep into sewer pipes, impacting treatment costs and leading to environmental concerns. Increased preventive maintenance on the sewer system identifies and repairs I&I sources, reducing pumping costs, energy consumption, and the deterioration of sewer infrastructure. This minimizes maintenance and repair costs for pipelines, manholes, and other components of the collection system. Sebastopol pumps wastewater to the City of Santa Rosa for treatment, and treatment costs are based on the volume of wastewater pumped. I&I leads to higher volume and, therefore, higher sewerage fees.

Summary

Optimizing water and sewer utility maintenance is crucial for preventing costly repairs, extending asset lifespans, improving energy efficiency, mitigating risks, ensuring compliance and protection of the environment, enhancing operation efficiency, and keeping water and sewage flowing. This leads to savings in capital and operational costs.

For Fiscal Year 2024-25, staff recommends not adding a new position to the utilities division but filling the staffing needed by allocating an existing Laborer currently assigned to the Parks division. This re-allocated position will be equally shared between Water and Wastewater divisions. Over time, this reallocated staffing will also help maintain the system to a higher level that is needed for the City’s aging system than is currently being performed. The fully burdened cost for a Laborer is \$92k and for a Maintenance Worker is \$159k.

For Fiscal Year 2026-27, Public Works will be proposing one new Maintenance Worker, shared equally between the Water and Wastewater divisions. For Fiscal Year 2028-29, an additional Maintenance Worker, shared equally between the Water and Wastewater divisions.

While it is difficult to quantify how much will be saved in future dollars, it is believed that budgeted line items will be reduced over the next five years after staffing is added. This is a trend that Public Works can track each year. The City will also have a better maintained system that will allow capital replacement dollars to catch up with the aging system.

Table 1 Potential Savings (\$/year)

	FY 23-24 budget (\$)	Potential savings (\$)	Remarks
Water			
PT help	\$ 22,400	\$22,400	No need for PT help
Contract Services	390,475	25,500	Valve maintenance-inhouse
Services & Supplies	173,800	10,000	Perform some repairs inhouse
Total potential savings - Water		\$57,900	
Wastewater			
Subregional volume charge	\$1,952,850	\$20,000	Reduce I/I
Contract Services	248,475	20,000	Perform some repairs inhouse
Services & Supplies	132,200	15,000	Perform some repairs inhouse
Total potential savings - Wastewater		\$55,000	Perform more work inhouse and increase maint. level

Recommendation

Because of the financial condition of the Enterprise funds, the staffing recommendation is phased over five years. Two options are proposed for consideration by Council and are described in Table 2. Option 1, in the best professional judgement of the Public Works Superintendent, is the preferred option. However, recognizing the fiscal constraints of the Enterprise funds, Option 2 is provided as an option that Public Works can “live with.”

Option 1 and Option 2 are essentially the same, except Option 2 does not include the one new Maintenance Worker in Fiscal Year 2028-29. The net result, after the 5-year period, is two new positions in Option 1 and one new position in Option 2. (Note that this memo only discusses

staffing. CIP spending is also different in the two options but is not discussed in this memorandum.)

Table 2 Staffing Options

	Option 1 (preferred)	Option 2
FY 2024-25	Allocate 1.0 existing Laborer from Parks to Water and Wastewater (split 50/50)	Allocate 1.0 existing Laborer from Parks to Water and Wastewater (split 50/50)
FY 2025-26	No change in staffing.	No change in staffing.
FY 2026-27	Add 1.0 new Maintenance Worker, split 50/50 to Water and Wastewater. Reallocate the Laborer position back to Parks division.	Add 1.0 new Maintenance Worker, split 50/50 to Water and Wastewater. Reallocate the Laborer position back to Parks division.
FY 2027-28	No change in staffing.	No change in staffing.
FY 2028-29	Add 1.0 new Maintenance Worker, split 50/50 to Water and Wastewater.	No change in staffing.

Attachment 5 General Fund Loan

Because of a deficit in the Wastewater Fund, the City has been using the General Fund to cover expenses in the Wastewater Fund, essentially creating a loan from the General Fund.

The Wastewater Fund began doing so in January of this year. Based on data provided in March 2024, the wastewater fund is anticipated to be approximately \$1.1 million in deficit by the end of the current fiscal year (June 30, 2024).

The potential need to borrow from the General Fund was outlined in the FY 23-24 adopted budget, which shows projected negative fund balances for both funds at the end of this year (p. 186 for water; p. 189 for sewer). We expect to have a positive reserve in the water fund by the end of June. Pages 18-19 discuss this as well, noting that projected rate increases would have addressed the shortfall if they had been adopted and implemented much earlier in the FY.

The City will disclose these actions in our annual report to the State Controller, in our next audit, and in the FY 24-25 budget.

The proposed wastewater rates include re-payment to the General Fund over five years, starting in FY 2026-27 (year three of new rates). It also includes paying 3% interest to the General Fund as a borrowing cost, which is similar to the interest earnings the City would have received had those funds been invested. The estimated annual loan repayment (i.e., debt service) is \$237,750/year. Total interest will be about \$100,000.

The Council has the authority to waive repayment of the loan, which would significantly reduce the City's General Fund balance. The Council may also waive interest charges. Waiving interest charges would allow the year 4 revenue adjustment to decrease by 1 percent. Waiving the loan would allow the year 4 revenue adjustment to decrease by 6 percent. This would amount to savings in a customer's typical utility bill of \$2.65/bi-month and \$15.76/bi-month, respectively.

The question of the need for authorization of this use of the General Fund has come up. An outside attorney has indicated that prior authorization is not required; although, staff previously indicated that explicit authorization was required.