

WATER IS CRITICAL AND MUST BE AFFORDABLE

Providing clean water and the safe processing of waste water is the most primary function of any first world community. One of the top three priorities for any City is clean drinking water and safe processing of waste water.

WATER, SEWER AND THE CITY OF SEBASTOPOL

Currently, the City of Sebastopol is considering raising water rates between 60% and 125% and sewer rates between 125% and 175%.

Currently, the City of Sebastopol has significant unfunded infrastructure need and a debt obligation of \$5,000,000.

Under the scenarios presented by the Consultants, the City is faced with very difficult choices of delaying infrastructure repair, which is not advisable, or instituting extremely high water and sewer rates which would negatively impact all residents and business owners.

Water and Sewer will be in a deficit requiring borrowing cash by the end of the 2024.

This is an urgent financial emergency and should be addressed as soon as possible.

THE NEED FOR INFRASTRUCTURE MAINTANENCE, REPAIR AND UPGRADE DOES NOT DISAPPEAR OR DIMINISH OVER TIME OR WITH LESS USAGE

It is of utmost ethical and fiduciary imperative for Council to fund infrastructure for Water and Sewer. Infrastructure is vital for Water and Sewer and only degrades over time. There must be a Council plan to fund and maintain infrastructure. It is a fundamental duty to citizens and ratepayers.

Any Parcel Tax should be solely dedicated toward infrastructure.

PARCEL TAX – A SOLUTION TO KEEP RATES LOW AND TO FUND INFRASTRUCTURE

Paying for Capital Improvements and Debt payments for Water and Wastewater from a Parcel Tax would lessen the initial increase required to balance the budget.

Wastewater 34% (Wastewater increases would be 34%)

Water – 22% (Water increases would be 22%)

Combined debt and capital investments total around \$2,000,000 per year which could be funded by a Parcel Tax of \$470-500 per parcel.

This amount would be less than what has been proposed for rate hikes to Water and Sewer by the Consultants. If residents current water bill is \$250 per every 2 months, a doubling would be an addition \$125 per month or \$1500 per year (three times a parcel tax of \$500). A 50% increase of rates would be \$62.50 per month or \$750 per year (\$150 more than a \$500 parcel tax)

A Parcel Tax is preferable to a rate increase as infrastructure needs to be maintained and replaced and debt needs to be paid no matter how high or low water usage is. In effect, you need a stable revenue stream that is not dependent on water usage to maintain the water system (which degrade through time and not by use) and to pay off the debt, which is consisted regardless of water use.

A Parcel Tax is tax deductible. Water and sewer expenses are not tax deductible for homeowners.

ALLOCATION STUDY NEEDED/ EXPENSES NEED TO REFLECT RATE PAYER BENEFIT

Currently, City Salaries and other expenses are billed to the Water and Wastewater Enterprise Funds as the City manages the water delivery and wastewater processing. There are two separate funds: one for water delivery and one for wastewater processing. These allocations are based on a 20- year-old study and do not accurately reflect current costs for water delivery and waste water processing, for which the rate payers are paying.

In other words, rate payers are paying for expenses that should be paid by the general fund.

An example is that ratepayers are paying for “Non-Departmental Budget Expenditures.” These have no relationship to the delivery of water or wastewater processing and include grant writing, Park Village Management, website maintenance, shredding services, and other costs completely outside the realm of water and sewer delivery. For 2023/2024, this was \$52,202 expensed to rate payers. See 136 and 137 of the 2023/2024 adopted budget.

It is also unclear if there is salary duplication between salaries listed in the Operating Expenses and G&A allocation. There are salaries listed under Operating

Expenses and then salaries for Public Works, Building and Engineering listed under G&A allocation.

FINANCE DEPARTMENT ALLOCATES \$1,003,261 TO WATER AND SEWER FUNDS

Currently the Finance Department allocates \$1,003,261 of their \$1,401,180 budget (71% of their total budget) to water and sewer. Page 73 of 2023/2024 budget. There seems to be zero justification for this percentage of allotment.

For comparison, the City of Napa allots \$588,830 for water billing (page 20 of Napa Water Study). The City of Sebastopol is paying \$1,003,261 to the finance department, which one would assume is for water and sewer billing. Sebastopol issues a combined water and sewer bill sent every two months, 6 cycles per year. Citizens are paying over \$1,000,000 per year for 6 bills. The City of Napa serves over 24,650 residential, commercial, agricultural and educational accounts. In addition, they provide water to American Canyon, Calistoga and other municipalities. Napa is at least 3x larger than Sebastopol yet, Sebastopol is paying almost double for water and sewer billing. See Napa Water Study that was submitted as part of Public Comment on 11/7/23.

COMPARISON: COTATI

Cotati is a neighboring city with similar population. **Cotati has to purchase water from Sonoma,** which increases their overall expense. Sebastopol sits on an aquifer and does not have to purchase water.

Cotati's Total Water Expenses are \$2,181,800 which includes purchasing \$772,000 in water from Sonoma. Sebastopol does not have to purchase water as it sits on a large aquifer. These include Capital Improvements.

Cotati's water fund salaries are \$430,800.

Sebastopol's Water Expenses are \$3,868,415 and it doesn't have to purchase water and these rates do not include capital improvements. It includes \$1,363,0096 in salaries from the General Fund.

Cotati's Sewer Expense is \$3,858,100. Sebastopol's is \$4,876,260. Cotati's Salaries are \$403,800. Sebastopol allocates \$1,113,046 from the General Fund to wastewater ratepayers.

See City of Cotati 2022 Water and Sewer Financial Plans schedules W1-S-4 at the end of the Cotati Rate Study :

<https://www.cotaticity.org/DocumentCenter/View/577/2022-Water-and-Sewer-Rate-Study-PDF>

See City of Sebastopol Adopted Budget 2023/2024, pages 184-191 for Water and Wastewater. The G&A allocation for each department is detailed in the department's section of the budget.

https://www.cityofsebastopol.gov/wp-content/uploads/2023/08/FY23-24-City-of-Sebastopol-Adopted-Budget_6.27.23_Published.pdf

CONCLUSION:

The current G&A allocation needs extensive review to reflect accurate expenses to the operation of water and sewer functions for ratepayers. The City needs to hire a forensic accountant to see if G&A allocation is correct and to determine if the City is in legal and fiduciary compliance. If the City is managing the water and sewer operations for rate payers, is the City managing expense to meet the fiduciary and legal responsibility of the City to the ratepayers?

California Prop. 218 explicitly states that fees related to a property related service such as water and sewer “shall not be used for any purpose other than that for which the fee was imposed.” (See CalCities Prop. 218 Implementation Guide, page 71. <https://www.cacities.org/uploadedfiles/leagueinternet/c2/c2f1ce7c-2b14-45fe-9aaa-d3dd2e0ffecc.pdf>)

A 20 year-old rate study does not reflect the current costs of water delivery and wastewater processing. Sebastopol's costs for water delivery and wastewater processing should be within a range that reflects a normative pricing structure found within other local communities. At this point, the costs for water delivery and wastewater processing seem abnormally high and excessive.

Any rates need to be based on an updated allocation schedule which accurately reflects the true cost to water and sewer operations.

Infrastructure repair, maintenance and upgrades need to be integrated into either a parcel tax, bond and/or rate increases.

Thank you,
Kate Haug