

Water and Wastewater Operations Need to be given proper priority and focus – rate payers deserve better.

1. It is disturbing that our water and sewer infrastructure is in such disrepair due to neglect, apparently in some effort to keep rates low.

In reality, the revenue from rates that should have gone to infrastructure was misappropriated by the city for expenses unrelated to water or sewer operations. This starved the water and wastewater enterprises of critical funding for infrastructure projects.

This practice is pretty clearly prohibited by Proposition 218 which has been in effect since 1996.

2. The staff document identifies the money from the General Fund as a loan to water and sewer rate payers that they must pay back, potentially including 3% interest.

Asking water and rate payers to pay for the deficits created by the poor decisions and lack of urgency by city management and the city council is wrong. Asking them to pay interest is crazy! The rate payers played no part in the creation of the deficits nor the long delay before the city management and council addressed them.

More importantly the deficit would not exist if not for the misappropriation of rate payer revenues to fund general purpose city expenses.

Below is the summary from the staff document of the deficits over the past five years
The total combined is \$3,146,139

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)

However, the expenses that drove this deficit included the amount the city has been overcharging rate payers for unrelated expenses at a rate of more than \$700,000 per

year. Over the five years that the total deficits amounted to \$3.1MM, rate payers were overcharged by as much as \$3.5MM.

Water and Sewer Rate payers had no role or likely knowledge that the city was spending their money on city projects rather than critical maintenance of water and sewer infrastructure. They had no role in setting rates in 2019. Arguably even when a few of us called attention to the growing deficits, these cries for the city council to attend to the problem fell on deaf ears.

3. The city, whether by neglect or intent, effectively misappropriated funds from water and sewer rate to fund general purpose expenses. Another way to view this is that for the past 25 years the city has been “borrowing” funds from water and sewer rate payers to pay general expenses.

Now the water and sewer enterprises have a critical need for these funds to be “repaid”. To pay for water and sewer infrastructure the city should designate a proportion of the proposed new sales tax revenues to “repay” water and sewer rate payers by funding the required infrastructure projects from the new sales tax.

This would reduce the amount of deferred infrastructure expense that would have to be funded by the impending rate increases and further reduce the burden on water and sewer rate payers created by the city mismanagement of the enterprises.

4. Q13 of the Q&A – “show the math”. There needs to be a clear mathematical explanation for how we get from rates charged to revenues required.

Given how many problems there were with the 2019 rate study perhaps all the math should be shared. For example, what are the volume assumptions for water use at each level and how does that turn into revenue? How do these volume assumptions compare to the last five years? How has a potential volume reduction either due to the new tiered rate structure or future requirements for decreased use due to drought been accounted for in the new rate structure?

Similar explanation is needed for the wastewater rate structure. Toni Bertolero’s analysis stated the reason wastewater revenues came in well under plan “remains unclear”. I had the same problem when I looked back at the 2019 rate study. The method was unclear and as a result we can’t learn from the prior mistakes. It is critical that all assumptions be clear in the public documents if only to make it easier to understand what went right and wrong looking back in the future.

5. Cotati should not be used as a compelling benchmark for required staffing.

The rationale is they operate with 0.6 FTE more than we do. However, Cotati delivers water and sewer services for 14% less than Sebastopol. Cotati has to purchase water where we use our own wells. Cotati does also use Santa Rosa for sewer services as does Sebastopol. On the surface using them as a model is imperfect due to the significant differences in how we obtain our water. Many times, an inappropriate comparison is submitted to the council and becomes support for a bad decision. A deep dive into their model is necessary before we accept their example as the best path forward for Sebastopol.

Much of the staff report for this meeting is directed at understanding the reasons that the Water and Wastewater Enterprises are in such a disastrous condition. Below are several suggestions for establishing new policies and procedures to prevent these problems going forward. Real examples of problems created by the lack of recommended policies are included.

Water and Wastewater Enterprises need to be addressed separately from general city business.

- The budget process was long and painful during the last 2 years. By the time the Budget Committee and later the full Council got to Water and Wastewater time had run out and the budgets were not carefully examined or discussed. CIP was completely ignored.

Policies need to be established to ensure decisions to spend money that will be paid by water and wastewater rate payers is explicitly described and understood to be directly and completely related to operating and maintaining the water and/or wastewater systems.

- It is unclear whether anyone on the City Council was aware of Proposition 218 and Proposition 26 requirement that only expenses directly related to water and sewer can be charged to rate payers.

Policies and procedures need to be established to ensure any decisions to increase budget expenses in any of the General Fund categories that are allocated to water, and sewer specify for each new expense whether it is to be allocated to not to water and sewer .

For example, City Council expenses are allocated to water and sewer. If the council votes to spend money for the Apple Blossom Parade they should also be explicit whether such an expense is to be allocated or not as part of the resolution to approve spending.

- The acceleration in general fund expenses beginning in 2018 were allocated to water and sewer rate payers driving a similar acceleration of expenses there. This was not recognized at the time and contributed to the “surprise” deficits that resulted soon after the increases started.

Policies need to be established specifying that any new expenditures to be paid by rate payers will be sufficiently covered by the rates established in the last rate study and prevailing at the time and for the foreseeable future.

- The decision to purchase new water meters and finance it with debt is an excellent example. That decision to take on new debt was approved with no one on the City Council being made aware that the debt would be paid by water and sewer rate payers and not by the city general fund. No discussion took place regarding whether there were sufficient funds to pay for this debt. Given that those operations were at deficits at the time the discussion may have been critical to making the decision they chose.