

Q3 Water fund update: Water rate payers are being overcharged in violation of proposition 218

OVERVIEW

Sebastopol residents pay more for water and wastewater than almost any city in the county. Rate payers deserve the City Council's attention to the many financial issues related to the water and wastewater enterprise operations. In particular the current allocation methodology needs to be revisited to ensure rate payers are not intentionally or unintentionally paying for city general expenses that the city council cannot pay with current tax revenues. Rate payers should not be charged for expenses unrelated to delivering water and wastewater services

THE CURRENT ALLOCATION SCHEME MISALLOCATES EXPENSES UNRELATED TO DELIVERING UTILITY SERVICES AND MAY NOT BE IN COMPLIANCE WITH PROPOSITION 218.

The "new" allocation scheme based on the Clear Source methodology and implemented through their model uses the prior year's city budget as a basis for the allocation of expenditures in the current year. "Employee Surveys" and "common practice" create further issues.

At best the prior year's budget approximates the actual costs to rate payers in the following year. Budgets tend to overstate expected expenses compared to actual. This is due to the cities "conservative" approach to budgeting. Expenses are frequently overestimated.

Using the prior year's budget, without regard to actual expenditures in that year as the basis to charge water and wastewater rate payers more than a year later makes the actual charge to rate payers less precise than is the "spirit" of proposition 218. Rate payers are not to be charged for costs unrelated to delivering services.

The employee survey data supporting the allocations was never presented to the council or made available for public scrutiny. Using the allocated dollars amounts from the model and comparing them to the 24-25 Dept budgets gives us an idea of what various departments thought their contribution to the enterprise funds would be.

	\$ Allocation	24-25 Dept Budget	24-25 % Allocation	Prior Allocation
City Council	\$ 84,242	\$ 198,625	42%	24%
City Manager	\$ 198,196	\$ 698,885	28%	40%
ASM/Clerk	\$ 94,632	\$ 430,771	22%	15%
City Attorney	\$ 190,266	\$ 647,900	29%	8%
Pub Works	\$ 306,199	\$ 1,769,079	17%	
Finance*	\$ 275,771	\$ 1,436,923	19%	75%
Engineering	\$ 211,684	\$ 553,020	38%	62%
Non Departmental	\$ 28,674	\$ 191,645	15%	18%
	\$1,389,664	\$ 5,926,848	23%	
* Finance allocation does not include billing costs				

The table above shows the amounts allocated in the Clear Source Model compared to the reported 24-25 department budgets. Also shown are the allocation amounts used for the last 20 years.

The first public comment critiquing the prior allocation scheme related to the fact that city council does not spend anything close to 24% on water and wastewater. The new model has it up to 42%. It seems unlikely that the city council has spent 42% of any meeting on water and wastewater let alone of their overall time during the year. The council had 334 agenda items in the last 12 months and only 10 had anything to do with water and wastewater operations. Some of those were consent items. A 10% allocation seems generous, certainly not 48%

Further, the Clear Source model made allocations by looking at the activities directed to the enterprise funds. The table below taken from the model presentation

Classification for Indirect Rates		City Council				City Manager			
No.	Title	General Admin	Admin. Oversight	General Fiscal Oversight	Capital Fiscal Oversight	General Admin	Admin. Management	General Fiscal Management	Capital Fiscal Management
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
1	Allocated Indirect Services								
0	Unclassified / CIP, ISF, Transfer	\$ -	\$ 853	\$ 882	\$ 34,008	\$ -	\$ 2,036	\$ 2,095	\$ 82,011
2	General Government	\$ -	\$ 57	\$ 1,170	\$ -	\$ -	\$ 136	\$ 2,777	\$ -
3	Planning	\$ -	\$ 2,441	\$ 1,706	\$ -	\$ -	\$ 5,828	\$ 4,051	\$ -
4	Building	\$ -	\$ 571	\$ 620	\$ -	\$ -	\$ 1,362	\$ 1,472	\$ -
5	Engineering	\$ -	\$ -	\$ 673	\$ -	\$ -	\$ -	\$ 1,599	\$ -
6	Fire & Prevention	\$ -	\$ 3,024	\$ 4,283	\$ -	\$ -	\$ 7,220	\$ 10,169	\$ -
7	Police	\$ -	\$ 24,353	\$ 12,673	\$ -	\$ -	\$ 58,147	\$ 30,087	\$ -
8	Public Works	\$ -	\$ 5,265	\$ 3,357	\$ -	\$ -	\$ 12,571	\$ 7,968	\$ -
9	Public Works - Community Facilities	\$ -	\$ 954	\$ 1,543	\$ -	\$ -	\$ 2,279	\$ 3,663	\$ -
10	Public Works - Water Utility	\$ -	\$ 3,285	\$ 5,788	\$ 31,326	\$ -	\$ 7,844	\$ 13,742	\$ 75,545
11	Public Works - Wastewater Utility	\$ -	\$ 2,993	\$ 8,695	\$ 32,155	\$ -	\$ 7,145	\$ 20,641	\$ 77,544
		\$ -	\$ 43,796	\$ 41,391	\$ 97,489	\$ -	\$ 104,568	\$ 98,262	\$ 235,100

- The allocation model shows the City Manager, and the City Council shifted a combined \$216,000 to rate payers for the purpose of providing “Capital Fiscal Oversight”
- Capital Projects in the FY23-25 budget included:
 - Water infrastructure study \$120,000
 - Zimpher Creek Sewer relocation \$32,000
- If we assume the city council and the city manager actually spent the time allocated on capital project management for water and sewer than oversight cost \$1.42 for every dollar actually spent on enterprise capital projects in FY24-25.
- At best this is very inefficient. If in fact the time was not spent, then it should not be allocated to water and wastewater rate payers.

Are Water/Wastewater rate payers paying for the ACLU litigation?

- The allocation model allocates 29% (\$190,000) of the total \$649,000 litigation budget to rate payers. We have been told the high litigation expense is due to the ACLU lawsuit. **If this means rate payers are paying for parking litigation which has no relationship to delivering water or wastewater services, then the allocation is inappropriate if not illegal.**
- If there is actually \$190,000 in litigation expenses for our water or sewer operations, then they need to be assigned directly to the enterprise budgets with justification and not based on an allocation. If that kind of litigation is going on rate, payers have a right to be informed.
- Other larger cities in the County rarely budget more than \$10,000 for legal costs.

Insurance expenses appear to be allocated twice to rate payers according to the methodology

- Liability insurance and Workman's compensation is allocated across all departments. Water and Wastewater each get a substantial direct allocation.
- Through the allocation model, the allocated insurance expense for each department appears to be included in allocable indirect expenses and is again allocated to the water and wastewater rate payers. This appears to be a double allocation.
- Why are rate payers paying a disproportionate amount of the cities insurance expense. How does this relate to the cost of providing water to residents and managing sewer services?
- Is the city trying to shift this category of rapidly rising expenses to rate payers to stem the financial crisis associated with expenses rising faster than revenues?

Potential overcharges are substantial using current model assumptions

The overcharges described above are substantial. The table below outlines reductions in allocated expenses for the City Council, City Manager and City Attorney and the potential for overallocation of expenses using conservative (inflated) budget expenditures to establish rates. Savings approach another \$300-400,000 reduction in city expenditures allocated to rate payers.

Proposed reductions in General Fund Allocations				
	\$ Allocation	24-25 Dept Budget	24-25 % Allocation	Prior Allocation
City Council	\$ 19,863	\$ 198,625	10%	24%
City Manager	\$ 153,816	\$ 698,885	22%	40%
ASM/Clerk	\$ 94,632	\$ 430,771	22%	15%
City Attorney	\$ 14,000	\$ 647,900	2%	8%
Pub Works	\$ 306,199	\$ 1,769,079	17%	
Finance*	\$ 275,771	\$ 1,436,923	19%	75%
Engineering	\$ 211,684	\$ 553,020	38%	62%
Non Departmental	\$ 28,674	\$ 191,645	15%	18%
	\$1,104,639	\$ 5,926,848	19%	
Reduced Allocation	\$ 285,026			
8% budget over actual	\$ 141,000			
Over charge to rate payers	\$ 426,026			

Actions Requested:

1. Establish a policy that mandates water and wastewater rate payers only be charged for actual costs of providing services.
2. The budget committee has directed the city to reduce budget allocation for annual updates of the Clear Source allocation model and consider updates every other year. The council budgets for a consultant to revisit the methodology and assumptions and revise the model.
3. A better approach would be to track actual expenses by city workers directly supporting water and wastewater operations.
4. Consider an annual reconciliation of actual expenditures and rebate any overcharges to rate payers.