From:	[redacted]
To:	Mary Gourley; Neysa Hinton; Jill McLewis; Phill Carter; Sandra Maurer; Stephen Zollman; Oriana Hart; Ana Kwong; Torran Korman
Cc:	City Council; [redacted]
Subject:	RFP For Cost Allocation and Rate Study
Date:	Tuesday, August 25, 2026 1:24:48 PM
Attachments:	Kate Haug Cost Allocation and Rate Study RFP Changes_Additions.docx

Hi Mary and Council Members,

I hope all is well!

As the EFOC meeting is cancelled and the agenda indicated that the RFP for the Cost Allocation and Rate Study will be presented to the Council on September 1, I have some notes on both that I would like to share. I believe these details add specificity and clarity. As consultants do not know our system, I believe they can benefit from processes that are specific to the City of Sebastopol. In addition, they stress Prop. 218 and Prop. 26 compliance. I've attached the changes and additions to this email.

Thank you,

Kate

Kate Haug
EFOC Finance Subcommittee
Updates and additions to Cost Allocation RFP & Rate Study RFP

COST ALLOCATION ADDITIONS AND CHANGES

Task 2: Data Collection, Review, and Interviews

ADD: If City moves all Salaries and Benefits to Direct Billing via Time Tracking and Payroll Software, can you create a model that would provide an allocation model based on FTEs for each department that is dynamic and would allow quarterly transfers of reimbursed funds from the Enterprise Funds to the General Fund to cover legally compliant allocated expenses?

ADD: Review City Council Meetings for the last fiscal year July 1, 2025 through June 30, 2026 to determine what percentage of Council Time is spent on Water Fund and Water Enterprise Discussion and Sewer Fund and Sewer Enterprise Discussion.

ADD: Review list of City Contractors and City Employees. Determine if any Contractors can be placed into the Cost Allocation plan or if to meet Prop. 218 and Prop. 26 Compliance all contractor charges must be identified in direct charges.

Development / Update of Cost Allocation Model and Plan

ADD: Determine what percentage of Council Time can be allocated to Water and Sewer Enterprise Funds and be compliant with Prop. 218 and Prop. 26.

UPDATE TO: "k) Review allocation methodologies to identify and minimize potential duplication of costs between Water and Wastewater operations and other City functions. Specifically address Finance/Administration, City Manager, City Clerk and City Council as these departments typically address the Water and Sewer Fund at the same time. For instance, Finance sends out a combined Water and Sewer bill every other month and customer service inquiries are typically related to this combined bill."

ADD: Create a system that can reflect when positions are vacant and when duties shift from City Employee to Contract Services. Ratepayers paid for a City Manager even though the position was vacant. Ratepayers paid for a Director of Public Works, even though the position was vacant. Ratepayers are currently paying for a City Clerk even though the position was vacant.

NOTE: This would be solved if all employees' time was time tracked and integrated into payroll. Ratepayers would only pay for employees that are on payroll.

ADD: Create a plan where all salaries and benefits are directly billed so that there is no duplication of salaries. Currently there are salaries for Public Works in direct billing and in the Cost Allocation Plan. It is impossible to decipher if there is duplication of costs and therefore the current system is not Prop. 26 compliant as the City cannot prove whether or not this duplication is justified.

RATE STUDY ADDITIONS and CHANGES

RATE STUDY - RATE STUDY CANNOT HAPPEN UNTIL SEWER STUDY

CHANGE:

"5. Recommend rate structures that will generate the level of revenue needs with a distribution of those costs on an equitable basis by customer category. Provide “sample bills” for all customer categories illustrating recommended rate increases.

6. Evaluate and recommend rate structures that address water conservation pricing, tiered rates, and drought surcharges."

TO:

5. Recommend rate structures that will generate the level of revenue needs with a distribution of those costs on an equitable basis by customer category PER PROP 218 COMPLIANCE. Provide “sample bills” for all customer categories illustrating recommended rate increases.

6. Evaluate and recommend rate structures that ARE PROP. 218 COMPLIANT AND FOLLOW EXISTING CASE LAW REGARDING TIERED PRICING. Evaluate tiered pricing based on PG&E peak electricity charges, which are transparent and visible and are Prop. 218 and Prop. 26 compliant. Costs for PG&E increase during peak hours 4-9 pm and the costs are reflected in City billing.

NOTE: Charging tiered prices tied to utility costs makes sure that the Enterprise Fund fully capture utility costs and are not generating debt when they are charging less than the actual expense for utilities. This will help keep the funds economically stable. This also reduces strain on the grid during peak demand which is beneficial to the infrastructure.

ADD:

7. Create a model where 110% of infrastructure costs are born by fixed meter charges. This would ensure that infrastructure will be maintained regardless of water consumption due to drought restrictions or less water usage for other reasons. This would provide a critical revenue stream so that infrastructure is replaced in a timely manner as it is necessary regardless of how much water is delivered.

In this model, KGAL water and sewer pricing should be based on anticipated direct charges and cost allocation for regular administration and maintenance.

8. Create pricing for commercial water sales. Commercial water sales are not regulated by Prop. 218 and Prop. 26. Integrate infrastructure capital improvements into commercial water pricing so commercial vendors are making adequate contributions to water infrastructure. Make sure commercial water pricing is competitive with other local vendors of water.

9. Create a model to capture increased demand on infrastructure created by ADUs. Under Proposition 218, a property with two units can be charged a higher fixed water meter charge than a single-family home if the utility can demonstrate that the two-unit parcel imposes a higher proportional cost on the system. The fee must directly relate to the cost of providing service, and higher usage or demand justifies higher charges. It is recommended that each unit on a property be charged a Water Meter Fixed charge to help fund the wear and tear on the Sewer and Water system from ADUs.