From: Lee Mathias [redacted]
Sent: Sunday, October 18, 2026 4:54 PM
To: Public Comment Received For City Council <citycouncil@cityofsebastopol.gov>; Mary Gourley <mgourley@cityofsebastopol.gov>; Jill McLewis <jmclewis@cityofsebastopol.gov>; Sandra Maurer <smaurer@cityofsebastopol.gov>; Phill Carter <pcarter@cityofsebastopol.gov>; Neysa Hinton <NHinton@cityofsebastopol.gov>; Stephen Zollman <szollman@cityofsebastopol.gov>
Cc: Kate Haug [redacted]
Subject: Public Comment Agenda item 9: Proposed lower costs to rate payers is welcome but is it enough?

Hi all,

Sorry to get this to you so late. The starting line on Thursday evening makes a comprehensive analysis of the issue a challenge.

Lee

[redacted]

Proposed lower costs to rate payers is welcome but is it enough

Recommendations

1. Use percentages city records support: 12% council, up to 23% city manager and 17.64% administration as temporary step pending time tracking data.
2. Take one-time city manager's separation payment and general fund only costs out of cost pools before applying new % allocations.
3. Fix the rest of the model: include city buildings in capital value and stop charging overhead twice. Bill Engineering projects directly to enterprise funds.
4. Settle up to actual costs at the end of the year.
5. Address FY24-25 &FY25-26 overcharges – fund water infrastructure from general fund expenses

Introduction

This agenda item is a surprise. At its last meeting, the EFOC asked City staff when the outstanding items in the EFOC recommendations would be brought back to the EFOC as staff proposals. The City Manager did not have an answer. Two weeks later, this proposal appeared. I**t has not been reviewed by the EFOC**.

Public comment and the EFOC have both identified problems with the numbers produced by the ClearSource model since its first year. The model is complex, its pages of data are poorly explained, and few people understand it.

I have taken the time to understand and recreate the model and have identified eight significant errors and issues that explain why it overcharges ratepayers. Staff's proposal improves some of them by taking the administrative departments out of the model. Other issues remain: the Engineering capital measure and the second-allocation double count still need to be corrected. A final issue, discussed at the end, is the need to reconcile allocations to year-end actual expenses, as was done for the last 20 years.

This proposal is a real step. It cuts about $468,000 from the allocation. But the goal is not just a lower number; it is a number the City can defend if it is challenged again under Proposition 218. The City has the burden of showing that allocated costs are related to the services being delivered. More corrections are needed to bring the allocation in line with Proposition 218.

The 30% for the City Council and City Manager is not supported

The staff report cites a review of Council meeting videos as the source of the 30% allocation. I timed every captioned Council meeting from November 2024 through October 6, 2026 – 45 meetings – using the timestamps on the City's own Vimeo recordings.

- Water and sewer were the subject of 24 of 600 agenda items **(4%)** at the 39 recorded meetings in FY 24-25 and FY 25-26.
- Ten of those 24 **(42%) were consent items** voted on as a block; together they took 8.4 minutes over two years.
- In those two fiscal years the Council spent 6,504 minutes on agenda items; 230 minutes were on water and sewer – **3.5%.**
- Over the last 24 months it is 353 of 7,813 minutes – **4.5%.**
- Counting only oversight items (leaving out ceremonial, procedural and policy items), it is **8.0%.**

Some will argue these measures understate the utilities' share. The next two paragraphs test that by adding committee time.

Water and Wastewater oversight activity increased after the EFOC began meeting on December 17, 2025. Since then, the EFOC has met nine times for 878 minutes (14.6 hours), almost all of it on water and sewer. The Budget Committee is also a Council committee and spends some time on water and sewer: between January 12 and September 28, 2026, it met 11 times for 899 minutes, 156 of them (17%) on water and sewer.

Meeting time alone doesn't give a full picture once committees are included, because the committees don't involve the whole Council. The EFOC has one Council member, and the Budget Committee has two. Time has to be counted per Council member: a Council meeting counts for five members, an EFOC meeting for one, and the Budget Committee for two.

Table 1. Council time spent on water and sewer

Measure (time on water and sewer)	Period	Share
Council agenda items	FY 24-25 + FY 25-26	3.5%
Council agenda items	Last 24 months	4.5%
Council oversight items only	Last 24 months	8.0%
Council member time: Council + EFOC	Dec 2025 – Oct 2026	11.4%
Council member time: Council + EFOC + Budget Committee	Dec 2025 – Oct 2026	11.9%

Source: caption timestamps of City Vimeo recordings; agenda minutes exclude public comment, breaks, roll call and routine items. Full item-by-item timing: Council_Agenda_Timing_FY24-27 workbook.

None of these measures comes close to 30%. **The record supports 12% as a maximum for the City Council – 6% Water and 6% Wastewater.**

The City Manager cannot really be allocated based on Council agendas alone. Her responsibilities are much broader, and most of her working hours are spent outside Council and committee meetings. She attends every Council, EFOC and Budget Committee meeting; counting every one of those minutes gives about 23%, which is used here as an upper limit. Time tracking is needed to support any allocation above that.

Administrative Services is charged 25% when department staff measured 14.7%

The staff report documents that, over six months (March–August 2026), staff logged 745 enterprise-fund hours out of 5,080 total, or 14.7%. The proposal charges 25% – 70% more than staff's own count. For 25% to be correct, staff would have had to miss about 40% of their enterprise fund time, which is concerning in itself.

- Applied to the adjusted cost pool, 14.7% is about $197,000, not $347,000.
- Allowing an extra 20% for time not captured by tracking (17.64%) gives $236,641.

Recommend 17.64%, split 50/50 (8.82% Water and 8.82% Wastewater).

The pools have not been cleaned up

Staff propose using the existing cost pools. Proposition 218 allows overhead that is related to delivering water and sewer service. Once the percentages for the City Manager, City Council and City Clerk are closer to correct, the next issue is the cost pools themselves.

Staff propose applying the percentages to ClearSource's full cost pools. About half of the Council, City Manager and Clerk cost pools have nothing to do with water or sewer:

- **City Clerk:** the pool is priced on FY 2024-25 payroll that included the combined Assistant City Manager/City Clerk position. The FY 2026-27 budget freezes the Assistant City Manager role.
- **City Council:** stipends and benefits, ABAG and Sister Cities dues, conference expenses, and legal hearing and public notices that have nothing to do with water and sewer.
- **City Manager:** a one-time separation payment and leave cash-out ($229,629), Regional Climate Protection Authority dues, the R3 solid-waste consulting contract, Holly Hanson communications and special project contracts, Baker Tilly forecasting, a facilitator for the City Manager evaluation, and relaunch-program retro pay.
- **Administrative Services:** the business license system, Measure U polling and strategist, property-tax administration, sales-tax and utility-users-tax audits, and the GFOA award fee.

These costs inflate the cost pools and increase the charges to ratepayers. They need to be removed before the FY 2026-27 allocations are finalized.

Table 2. FY 2026-27 charges for the four administrative departments: staff proposal vs. recommended

Function	Staff cost pool	Adjusted cost pool	Staff Water %	Rec. Water %	Staff WW %	Rec. WW %	Staff charge	Rec. charge	Difference
City Council	$176,817	$86,990	17.0%	6.0%	13.0%	6.0%	$53,045	$10,439	$42,606
City Manager	$847,482	$383,332	17.0%	13.0%	13.0%	10.0%	$254,245	$88,166	$166,079
City Clerk	$339,680	$160,209	12.0%	12.0%	8.0%	8.0%	$67,936	$32,042	$35,894
Admin. Services	$1,387,628	$1,341,503	12.5%	8.82%	12.5%	8.82%	$346,907	$236,641	$110,266
Total	**$2,751,606**	**$1,972,034**					**$722,133**	**$367,288**	**$354,845**

Recommended charge by fund: Water $191,725; Wastewater $175,563. Staff figures are from page 3 and Table 2 of the October 20, 2026 staff report.

Notes

1. **Adjusted cost pool.** Staff cost pool less one-time and General Fund-only costs: the FY 2024-25 City Manager separation payment and leave cash-out ($229,629) and FY 2024-25 consultant contracts; Council stipends, dues and conferences; the frozen Assistant City Manager position in the City Clerk pool; and General Fund revenue functions in Administrative Services.

2. **City Council.** Based on the most recent period (December 2025 – October 2026), including EFOC and Budget Committee meetings, weighted by each Council member's participation: Council meetings count for all five members, committee meetings for the members who attend. Split equally between Water and Wastewater.

3. **City Manager.** Higher than the Council because the City Manager attends all Council, EFOC and Budget Committee meetings and has non-meeting time as well. The 23% is split using staff's 17/13 ratio (13.03% / 9.97%, shown rounded; charges use the exact rates). An actual allocation requires City Manager time-allocation data, which has not been provided.

4. **City Clerk.** Staff's proposed percentages applied to the adjusted cost pool.

5. **Administrative Services.** Staff's measured enterprise share of 14.7% (745.45 of 5,080 hours, March–August 2026), plus 20% for time not captured by tracking: 17.64%, split equally.

6. **Upper limits.** The Council and City Manager percentages come from the period with the most water and sewer activity on record (Grand Jury report, cost allocation review, Water Master Plan) and include committee time. They are upper limits, not typical levels.

Does the rest of the model remain unchanged?

The staff report doesn't explain how the model will work once the administrative departments are taken out. Staff propose a hybrid approach without rechecking the rest of the model. Two problems affect the remaining departments.

The second allocation counts overhead twice

In ClearSource's first round, every central department's cost is spread to all departments, including the other central departments. In the second round, whatever a central department receives in the first round is spread again to the operating departments, including Water and Wastewater. The second allocation should not be used: the City could not document the relationship between those twice-routed costs and the services delivered, as Proposition 218 requires.

Staff propose to leave Engineering, Corp Yard, Government Buildings and Non-Departmental in the model unchanged. Although the four administrative departments are now charged by flat percentage, the remaining departments still carry costs they received from those departments, and in the second allocation pass them on to the enterprise funds:

Table 3. Administrative costs still passed to the utilities through the remaining departments (FY 2026-27)

Remaining department	Received from Council, City Manager, Clerk, Finance (1st round)	Passed on to Water	Passed on to Wastewater	Total to utilities
Engineering	$13,905	$4,468	$4,586	$9,055
Corp Yard	$32,638	$9,492	$6,434	$15,926
Government Buildings	$12,181	$485	$409	$894
Non-Departmental	$5,343	$386	$350	$737
Total	**$64,067**	**$14,832**	**$11,780**	**$26,612**

Traced in the reconstructed ClearSource model, including the 2.5% adjustment. The $26,612 is charged twice: once inside the flat percentage on the full pool, and again through these departments' lines.

There is also a smaller effect in favor of the general fund. Under the model, the four administrative departments' charges included $11,910 of Engineering, Corp Yard, Government Buildings and Non-Departmental costs (Council $5,326; City Manager $1,871; Clerk $1,212; Finance $3,501). The flat percentages replace those lines, so this $11,910 drops out.

The net effect is that staff's proposal charges about $14,700 too much ($26,612 less $11,910). **The amount is not large, but it shows the hybrid approach was put together without rechecking the model. <u>The simple fix is to allocate each central department's cost once, directly to the departments that use it.</u>**

Engineering is allocated on capital asset value

Engineering's whole cost pool ($212,414) is spread by capital asset value. Simply stated, Engineering's costs are divided between the General Fund and the enterprise funds by their shares of capital assets: the City has buildings and streets; the utilities have pumps and pipes. The values come from the audited financial statements.

Table 4. Capital asset values used to allocate Engineering in current model

Asset group	Value	Share
General Fund infrastructure ("Unclassified/CIP")	$8,856,790	35%
Water system	$8,158,473	32%
Wastewater system	$8,374,315	33%

That sends 65% of Engineering to the utilities: $152,471 after the 2.5% adjustment.

This measure has serious problems:

- **City buildings are left out.** For whatever reason, the model does not include the $7.85 million value of City Hall, the police station and other City buildings in the General Fund total, although Engineering works on them too. Adding them back reduces the utilities' share from 65% to 50%.

Older General Fund infrastructure isn't on the books. Under an accounting rule for small cities, the City only records streets, storm drains and similar infrastructure put in service after about 2003 (FY 2023-24 audit, Note 1.I). Utility systems have always been recorded. The comparison is lopsided against ratepayers, and because no one knows the City's real infrastructure value, it is a poor basis for allocating cost.

Asset value doesn't measure engineering work. Engineers spend their time on projects, permits and development review – not in proportion to what pipes and streets cost decades ago. CIP project values would be a better measure: using the five-year CIP would cut the current allocation by about 43% and using the FY 2026-27 CIP by about two-thirds (Table 5).

Table 5. Engineering's FY 2026-27 charge to the utilities under different measures

Basis	Utility share	Water	Wastewater	Total	Change
Current: asset value	65%	$75,240	$77,231	$152,471	—
Asset value + General Fund buildings	50%	$57,472	$58,992	$116,464	−$36,007
Five-year CIP (FY 26-27 to 30-31)	37%	$44,955	$41,368	$86,323	−$66,148
FY 2026-27 CIP budget	21%	$18,149	$30,980	$49,128	−$103,343

- **The cost pool is an issue here as well. Engineering includes non-utility work: stormwater permits, the MS4 permit renewal and SCTA fees ($28,769) are General Fund functions, and stormwater expenditures are separate from the Enterprise fund. These costs should be removed from the cost pool.**

Engineering allocation could be very simple. Because the work is largely done by consultants, the contracted project costs can be billed directly to the appropriate fund.

Corp Yard

Corp Yard is allocated by Public Works staff count and Public Works operating spending. That puts about 40–45% on the utilities, which is roughly reasonable because water and sewer crews work out of the Corp Yard. Two smaller issues remain:

- About $15,900 of Corp Yard's charge is Council, City Manager, Clerk and Finance cost passed through the second allocation (Table 3).
- Fuel and vehicle maintenance ($71,500) is spread as overhead instead of being charged to the divisions whose vehicles use it.

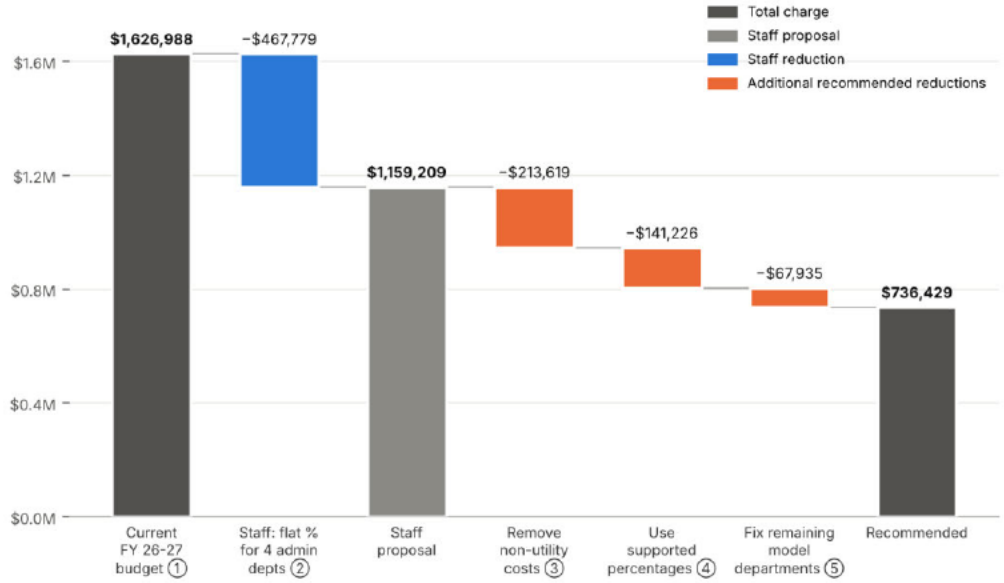
Total corrections and financial impact

Table 6 tracks the changes from the original ClearSource allocation (including the 2.5% inflation increase), through the staff correction, to the recommendations from this analysis.

Table 6. Corrections to the FY 2026-27 overhead charge to Water and Wastewater

#	Correction	FY 2026-27 effect	Total Allocation $
①	Current FY 2026-27 budget (ClearSource model + 2.5%)		$1,626,988
②	Staff proposal: flat percentages for Council, City Manager, Clerk and Administrative Services	−$467,779	$1,159,209
③	Remove one-time and General Fund-only costs from those four cost pools	−$213,619	$945,590
④	Use percentages supported by the video meeting record (Table 2)	−$141,226	$804,364
⑤	Correct the remaining model departments: add City buildings to Engineering's asset base, remove stormwater/SCTA, remove the second-allocation pass-through	−$67,935	$736,429
	Total reduction from current budget	**−$890,559 (55%)**	**$736,429**

Figure 1. FY 2026-27 overhead charged to Water and Wastewater: current budget to recommended



① Current budget: charge in the adopted FY 2026-27 budget from the ClearSource plan (staff report Table 1 for the four administrative departments, $1,189,912, plus $437,076 for Engineering, Corp Yard, Government Buildings and Non-Departmental).
② Staff's flat percentages (17/13, 17/13, 12/8, 12.5/12.5) applied to ClearSource's full pools (staff report Table 2).
③ Staff's percentages applied to the adjusted cost pools (Table 2, "Adjusted cost pool").
④ Recommended percentages applied to the adjusted cost pools (Table 2, notes 2–5).
⑤ Engineering, Corp Yard, Government Buildings and Non-Departmental recalculated in the reconstructed model: $437,076 → $369,141 (Engineering −$58,243; Corp Yard −$8,814; Government Buildings and Non-Departmental −$878).

Table 7. FY 2026-27 overhead charge by fund

	Water	Wastewater	Total
Current budget	$790,041	$836,947	$1,626,988
Staff proposal	$630,972	$528,237	$1,159,209
Recommended	$400,032	$336,397	$736,429
Reduction from current budget	**−$390,009 (49%)**	**−$500,550 (60%)**	**−$890,559 (55%)**

Prior years

Staff recommend adopting the new percentages "with no prior-year refund or repayment" (Recommendation 2) but give no reason. The Council already refunded $350,354 of prior-year City Attorney charges in August. They have conceded that charging ratepayers for City Manager expenses for an entire year that the position was vacant may not be appropriate but have not brought that issue forward.

On the corrected basis in my reconstructed model, FY 2024-25 and FY 2025-26 were overcharged by at least $1.26 million. Under Proposition 218, utility charges are limited to the cost of service, and the City carries the burden of proof for those years as well.

If the enterprise funds were flush with money and all required maintenance and capital improvements were up to date, the past could be left in the past, as some Council members have suggested. However, the recent Water Master Plan shows that, conservatively, $10 million of work is needed on water infrastructure, and the City is proposing to nearly double the cost of that work by borrowing at high interest rates to pay for it – all because the enterprise funds don't have enough money. The last two rate increases were explained as needed to fix infrastructure. Unfortunately, the increases were transferred to the General Fund. The City has an obligation to make ratepayers whole by funding required infrastructure without excessive loans.

Year-end reconciliation

Year-end reconciliation is the final change needed. Proposition 218 requires the City to demonstrate how allocated costs relate to the delivery of services. Using actual expenses from two years ago, inflated by 2.5%, is fine for budgeting, but it creates problems: staff vacancies and planned projects or expenses that are never completed are still charged. It could also work in the City's favor. The current method may be "close," but year-end actuals make it "exact."

As the City develops a new model or method, it would be cleaner to use the current year's budgeted department expenses to build the enterprise budgets, and then actual department expenses at year end to set the final cost allocation. This is what has been done for the past 20 years.

Conclusion

Staff's proposal moves in the right direction, but it fixes only one of the model's problems – the percentages – and fixes it with numbers the City's own records don't support. The 30% for the Council is 2½ to 8 times what the meeting record shows, and the City Manager's 30% exceeds even the most generous count of her meeting time. Administrative Services is charged 70% more than its own time logs. The cost pools still contain one-time payouts and General Fund-only costs. And the four departments left on the model still carry an Engineering measure that ignores City buildings and a second allocation that charges the same overhead twice.

Correcting all of these brings the FY 2026-27 overhead charge to Water and Wastewater to $736,429 – $890,559 below the current budget and $422,780 below staff's proposal – using upper-limit percentages that give the City the benefit of the doubt. That is a number the City can document and defend under Proposition 218. Prior years still need to be addressed.

These changes will have a significant impact on the General Fund. It is because for years instead of addressing the structural budget issues the city just raised water/sewer rates. The city needs to build a tax revenue base that supports realistic operating costs without dependance on the enterprise funds.