

Dear Council Members and City Staff,

As a member of the Enterprise Oversight Committee, Financial Subcommittee, I have spent over 100 hours looking at past budgets and the Cost Allocation Model. I have done a deep dive on past budgets to see exactly why the Water and Wastewater Enterprise Funds had significant increases in costs without any money left for Capital Improvements even though rates kept rising and Sebastopol does not purchase water.

The Cost Allocation Plans being presented contain many problematic items, which are outlined below.

From my extensive research, it is clear the City has never been Prop. 218 compliant as it has never tracked employee time dedicated Water and Sewer. In addition, the City used a flat percentage model for many years and never adjusted it when it had staff increases, which impacted the amount charged on the flat rates. For instance, the Finance Department went from 2 to 4 people and kept charging the Enterprise Funds 75% of their budget even though the number of accounts remained the same. It should have been reduced to 18.75% to Water and 18.75% to sewer. In addition, one bill (mailed every other month) covers both Sewer and Water so any billing time should be split between Water and Sewer.

It is unclear where ClearSource got their data. It was said that it came from interviews with staff, which may or may not be an accurate reflection of time spent. It certainly is inaccurate when it comes to Council Time. In Prop. 218, there is no mention of consultants or Cost Allocation Plans. It is a simple law.

Prop. 218 is easy to apply. It simply to charge the enterprise accounts charges associated with Water and Sewer. You do this by tracking employee time.

Our attorney, Alex, tracks his time in 6 minute intervals and bills accordingly. City employees have not tracked their time in hour intervals.

Prop. 26 says the burden of proof is on the City. The City has no data as it has never kept track of the hours spent on Water and Sewer.

My recommendation is to choose move all contractor fees into direct billing and cut the Finance/Administrative services in half, which should have been done in 2016 when staff increased to 4 people from 2. If you move the attorney because the attorney is a contractor then all contractors like Engineering need to go into direct billing.

If there are FTE in Finance and Administration dedicated to Water and Sewer, it is assumed part of their duties would be to manage and pay contractors.

To understand them, you need to look at the past cost plan.

Fund to cover City expenses for each item associated with the cost allocation plan in a simple spreadsheet.

	NEW COST PLAN					
	FY24-25			FY25-26		
	Water	Wastewater	Total	Water	Wastewater	Total
Department						
City Council	50,209	52,465	102,674	49,767	54,891	104,658
City Manager	129,411	150,817	280,228	128,272	157,791	286,063
City Attorney	70,129	114,458	184,587	69,512	119,751	189,263
ACW/City Clerk	38,434	62,728	101,163	38,096	65,629	103,725
Admin Svs (Finance)	306,241	323,159	629,400	303,546	338,103	641,649
Public Works - Engineering	92,548	89,999	182,548	91,734	94,161	185,895
Public Works	157,315	108,077	265,393	155,931	113,075	269,006
Non-Departmental	8,575	7,230	15,805	8,500	7,564	16,064
<b>Total</b>	<b>852,863</b>	<b>908,934</b>	<b>1,761,797</b>	<b>845,358</b>	<b>950,965</b>	<b>1,796,323</b>

For a deeper explanation and additional context on how the cost allocation works, please refer to the memo titled "*Understanding the City Attorney Cost Allocation*"

Cost Allocation Fees are a distinct line item in the Water and Sewer budgets. Cost Allocation is IN ADDITION to direct billed costs such as Public Works Salaries and the Santa Rosa Sewage Processing. The model has several issues which need to be resolved per Prop. 218 and Prop. 26.

- 1) City Council: Prop. 218 generally forbids City Council costs to be passed through to ratepayers. In addition, Council spends less than 4% of its time on Water and Sewer (the exception is Council Member Carter). City Council time must be tracked per Prop. 26.
  - a. Proposition 218 does not allow for general City Council costs to be billed to utility ratepayers. It strictly prohibits using property-related fees—such as water, sewer, and trash—for purposes other than providing the service. Fees must reflect the direct, proportional cost of providing that specific service to the parcel.
- 2) City Manager: City Manager pass through costs must be directly related to Utility Management. The City Manager should track their time so that this is an accurate amount.
  - a. Proposition 218 generally prohibits billing City Manager costs or other general government overhead to utility ratepayers. It restricts fees to the **actual cost of providing the service**, prohibiting charges for general services like police, fire, or administrative overhead unrelated to the service (e.g., water, sewer).
- 3) Contract City Attorney: All contract services must be direct billed.
  - a. Proposition 218 generally prohibits marking up contract services for profit. Under Proposition 218, property-related fees—including those for contracted services—cannot exceed the proportional cost of providing the service. Fees must directly reflect the cost of service, preventing local governments from generating profit or covering unrelated expenses.
  - b. \$184,587 for legal fees for FY 2024/2025. Records still show that only \$13,850 were billed by attorneys for services rendered to Enterprise Funds.
  - c. For FY 2025-2026 \$189,263 was allocated. I have requested the attorney bills and thus far it is \$9651.50.

4) City Clerk: General Government Overhead cannot be passed on to Ratepayers. City Clerk time must be tracked per Prop. 26.

a. Proposition 218 generally prohibits passing "city clerk services" or other general government overhead costs through to ratepayers. Under Prop 218 (California Constitution Art. XIII D), fees for property-related services, such as water or sewer, cannot exceed the proportional cost of providing that specific service.

5) Admin/Financial Services: The allocation needs to be reduced to represent accurate employee FTE or the billing service needs to be outsourced to reflect competitive pricing. The 2014 Allocation amount was never reduced when staffing increased in 2015 and 2106. Number of utility bills stayed the same but staffing increased. Finance costs have risen over 300% even though the amount of bills has remained the same. Correct allocation is .75 FTE for Water and .75 FTE for Sewer.

6) Public Works: Engineering – Engineer is contract and needs to be direct billed. The Engineering tech is billed via the Public Works Yard Cost allocation plan. We have no Engineering Department. Therefore, it can't be allocated.

a. Per City Data, the City made a \$588,057 profit from ratepayers (FY 2021-2024)

7) Public Works: The current direct billed salaries are 3.5 FTE for Water and 3.1 FTE for Sewer. In addition, Public Work salaries are also included in the Cost Allocation Plan. This includes Public Works Director, Engineering Tech and some Public Works Labor and is about 1 FTE for Water and 1 FTE for Sewer. This brings the total of FTE attributed to Water to 4.5 FTE and 4.1 FTE For Sewer.

1) This needs to be reviewed as it is clear that Public Works is not spending 71% (8.6 FTE out of 12 FTE) on Water and Sewer. Employees need to track their time in order to get accurate data on how much time is spent on Water and Sewer.

2) Recent time tracking shows 30-40%% of Public Works Time spent on Water and Sewer. Using the spreadsheet submitted by Eric Billing, a total of 1103 hours over a 29 day period was spent on Water and Sewer, which average a total of 38 hours per day. Out of 100 hours per day, that is 38 percent of time spent by labor on Water and Sewer. That is 3.8 FTE between Water and Sewer as each 10 hours represents 1 FTE.

#### Time Tracking is Essential for Prop. 218 Compliance.

"Cities ensure Proposition 218 compliance—which requires that fees for property-related services do not exceed the cost of providing them—by using automated, digital time-tracking systems to precisely allocate employee hours to specific, fund-restricted services. These systems use [digital time-tracking software](#) to create auditable, timestamped records, ensuring that personnel costs charged to specialized funds (like water or sewer) are verified and compliant."

## Appendices which show Historical Cost Allocation Amounts

Historical List of Finance Department Costs Allocated to Water and Sewer. Note there is a 200% increase of allocated overhead from FY 2015 to FY 2023, 8 Year Period, even though the number of customers and utility bills remain static. Note significant increase AFTER SmartMeters are installed even though cost savings was promoted as reason for increasing Enterprise Fund Expenses for Syserco Loan.

### 3. A list by year of Finance Department Fees allocated to the Cost Allocation Plan

	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Water	Admin Svs (Finance)	155,541	171,860	218,500	283,880	326,335	361,733	355,882	463,197	461,983	471,000
Sewer	Admin Svs (Finance)	151,448	167,388	212,826	276,410	317,747	352,212	346,516	451,007	449,826	461,000

### Historical List of Legal Charges -

From Adopted Budget, Legal Fees for 2014/2015 were:

#### Expenditure Allocations 2014/2015

Pg	Department	General Fund	Water Fund	Sewer Fund	Sales T/U Tax	Gas Tax Fund or Park In Lieu	Grants or Other Funding	Total
22	City Council	178,051	22,711	26,496	4,800			232,058
24	Cittaslow	18,000						18,000
30	City Manager	102,517	34,173	34,173	5,500			176,363
32	City Attorney	192,385	10,456	6,273				209,114
35	City Clerk	186,502	17,553	15,359	18,000			237,414
38	Finance	97,155	147,677	143,791	4,800			393,423

From Adopted budget, Legal Fees for 2015/2016 were:

### ALL FUND EXPENDITURES ALLOCATION

Department	General Fund	Water Fund	Sewer Fund	Gas Tax Fund	Grants or Other Funding	Total
Projected Revenue	7,765,531	2,079,908	3,035,000	173,600	1,356,060	14,410,099
City Council	183,737	24,979	29,142			237,858
Cittaslow	20,000					20,000
City Manager	154,877	37,292	37,292			229,461
City Attorney	129,168	7,020	4,212			140,400
City Clerk	223,834	20,690	18,104			262,628
Finance	124,340	180,332	175,586			480,258

From a Public Records request, attorney's fees range from \$8754 to \$51,618 from FY 2017 to 2024. There are no significant legal challenges to the Water or Sewer activities which would warrant a 250% increase of the \$184,587 charged in the 24/25 FY.

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PRA	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
#1 thru #4	City Attorney - Water	N/A - Data in Legacy System		6,851	6,802	5,472	7,466	7,752	12,938	16,341	32,262
	City Attorney - Wastewater			4,111	4,081	3,282	4,478	4,652	7,762	9,805	19,356
	<b>Total Enterprise Allocation</b>			<b>10,962</b>	<b>10,883</b>	<b>8,754</b>	<b>11,944</b>	<b>12,404</b>	<b>20,700</b>	<b>26,146</b>	<b>51,618</b>