

Key Areas for Cost Allocation Discussion

- 1) Contract Services - City Attorney, City Engineer,
- 2) Finance/Administrative Services
- 3) Public Works
- 4) City Council
- 5) City Manager
- 6) Vacant Positions, Projected v. Actual Expenses and Cost Allocation
- 7) Tiered Rates

Key Propositions and State Laws

Prop 218 (1996)

California Proposition 218, passed in 1996, mandates that local water and sewer rate increases cannot exceed the cost of providing services, **prohibiting revenue for general government use.**

Prop 26 (2010)

Passed in 2010, California Proposition 26 amended the state constitution to reclassify many regulatory fees as taxes, requiring a 2/3 supermajority vote by local governments rather than a simple majority

. It restricts fees that address broad environmental or public health impacts, often impacting water and sewer fees if they exceed the specific cost of service.

Key details regarding Prop. 26 and water/sewer fees include:

- Definition of a "Tax": Under Prop. 26, charges that do not directly benefit the payer, but rather the general public (e.g., environmental mitigation), are considered taxes.
- Impact on Water Utilities: The measure was designed to stop "hidden taxes" on water, utilities, and other services.
- Exceptions: It does not apply to:
 - Specific user fees (e.g., a fee for a specific, direct water service).
 - Fees imposed as a condition of property development.
 - Property-related fees already covered by Proposition 218.
- Legal Burden: Local governments must prove that charges are not taxes, and that fees are no more than necessary to cover reasonable costs.

What Must Be Done to Be Prop. 218 and Prop. 26 Compliant

- 1) Move all contracted services - Legal, Engineering, Consultants - to direct billing with invoices tracking to show expenses are for Water and Sewer only.
- 2) Move all salaries and benefits for Finance, Council, City Manager, Public Works to Direct Billing. (Currently double billing for Public Works Salaries in Cost Allocation Plan & Direct Bill).
- 3) Correct FTE positions to reflect historical data and departmental budget narratives. According to the 2014/2015 budget, Finance should have 1.5 FTE between Water and Sewer. This would be .75 FTE for Sewer and .75 FTE for Water. Currently, Finance allocates 75% or 3 FTE To Water and Sewer - .1.5 FTE for Sewer and 1.5 FTE for Water - which has resulted in significant overcharging to Water and Sewer Ratepayers and subsidization of the General Fund, which is illegal.

Public Works 2026 time tracking showed 3 FTE between Water and Sewer. This would be 1.5 FTE for Sewer and 1.5 FTE for Water. Public Works Management .25 FTE Sewer and .25 FTE Water. City Manager and Council Time need to be tracked.

Review budget narratives from 2014-2024 to see job responsibilities for the City versus Water and Sewer. The Budget Narratives for the various City Departments show the full scope of job activities and show how much responsibility is for Water and Sewer in comparison to job functions that serve the City's general function and administration. Very little mention of Water and Sewer can be found in any job descriptions.

- 4) Reduce Departmental Allocation percentages for shared expenses to appropriate amounts. Finance has 1.5 FTE out of 4 FTE, this is 37.5% of the department. The Allocation for shared expenses should be 18.75% for Water and 18.75% Sewer. Public Works has 3.5FTE out of 12 FTE, which is 30%. The Corporate Yard shared Cost Allocation would be 15% Water and 15% Sewer.
- 5) Remove any Departmental Costs that do not relate to Water and Sewer.

- 6) Use actual expenses to determine transfer of funds out of Water and Sewer funds to the City's General Fund.
- 7) Adjust salary and benefit costs when positions are vacant. Recent examples are vacant City Manager and Vacant Director of Public Works.
- 6) Calculate the amount the City has overcharged Ratepayers since 2016 when the City failed to reduce the Cost Allocation percentage in the Finance Department when the Finance Department doubled in size but had the exact same amount of work for Water and Sewer as they did prior to the increase in Department size.
- 7) Calculate the amount the City has overcharged for Contract Services and repay the Water and Sewer Enterprise Funds. Calculate any refunds due to Water and Sewer Ratepayers due to vacant positions. Calculate any refunds due to Water and Sewer Ratepayers as when Cost Allocation transfers were not based on actual expenses.
- 7) Do not increase water rates in July 2026. Remove Tiered Pricing.

**CONTRACT SERVICES -
PER PROP. 218 (1996) AND PROP. 26 (2010)
City Cannot Profit from Contract Services**

- 1) All contract services such as Contract Attorney and Contract Engineer must be direct billed to the Enterprise Fund. If not, the City is using the difference between the contract amount and the amount expensed to the Enterprise Fund as profit to supplement other general services that do not directly benefit the Ratepayer. This is illegal.
- 2) The city may apply an administrative fee to process the invoice and documented staff time to manage the contract. This must be documented.
- 3) No contract services should be included in an allocation plan.
- 4) Per Ana, the City made a \$588,057 profit from ratepayers (FY 2021-2024) by overcharging from what was billed to Water and Sewer through the Cost Allocation Plan v. what was actually billed by the Engineering consultants.

Engineering

FY 21

Allocated \$214,063

Billed 79,853

\$134,210 profit 2021

FY 22

Allocated 259,904

Billed 259,904

\$6676 profit 2022

FY 23

Allocated \$251,946

Billed \$78,613

\$173,333 profit 2023

FY 24

Allocated \$288,047

Billed \$14,200.11

\$273,838 profit 2024

5) **Legal Expenses.** Prior to 2024, Larry McLaughlin served as City Attorney and City Manager. Records show that no significant legal action has occurred between 2015 and 2025 except for a suit by River Watched, which was not billed to the Sewer Enterprise Fund. Well 4 is in an on-going lawsuit but 2012 Rate Study shows there was a separate Well 4 litigation fund of \$117,586 in 2012. Legal fees have been consistently charged to ratepayers; no backup documentation exists for fiscal years 2015-2024. Legal fees were reasonable and in-line with other comparable institutions. There is no real contest around fees while Larry McLaughlin served in the role as City Attorney.

6) After McLaughlin retired, the City contracted an attorney. The City does not have a Legal Department, it is all contracted services. At this point, the legal fees for Water and Sewer rose dramatically even though there was no litigation for Water and Sewer.

7) In Public Records Request from July 10, 2025, it stated FY 2024/25 ratepayers were charged \$51,618 in legal fees. Billing records show that only \$13,850 were actually billed by attorneys.

8) From information from an Enterprise Oversight Committee, the Finance Department showed an allocation of \$184,587 for legal fees for FY 2024/2025. Records still show that only \$13,850 were actually billed by attorneys.

9) **For FY 2024/2025, Ratepayers were overcharged either \$37,768 or \$170,737. Clarification is needed to determine what was actually allocated.**

8) For FY 2025-2026 \$189,263 was allocated. I have requested the attorney bills and thus far it is \$9651.50.

SOLUTION: MOVE ALL CONTRACTED SERVICES TO DIRECT BILLING AND TRACK TIME TO PROCESS INVOICES AND MANAGE CONTRACTS. REFUND RATEPAYERS OVER CHARGES FROM LEGAL AND ENGINEERING CONTRACTS.

Finance/Administrative Services

A History and Why Expenses Increase by 300% in 9 years

Billing fees in 2015 was \$306,989 for Water and Sewer. Billing fees in 2024 were \$944,971 - rising over 3 times in a 9 year period while the number of accounts remained the same.

- 1) The root of this dramatic increase is how the Cost Allocation plan was never adjusted when the Finance Department increased its size from 2014-2016. When the Finance Department added new employees, it should have DECREASED its allocation to Water and Sewer. The amount of account and billing work is STATIC for Water and Sewer. The amount of customers remain more or less the same over a 20 year period. With more employees increasing the budget for the Finance Department, the Cost Allocation should have been adjusted downward.
- 2) From 2014-2024, Finance allocated 71-75% of its total budget to Water and Sewer.
- 3) In FY2014/ 2015, there were only 2 FTE in Finance - a Director and Junior Accountant. In 2014/2015 a 75% allocation to Water and Sewer equaled 1.5 FTE. All the billing and HR responsibilities for Water and Sewer was completed with 1.5 FTE.
- 4) In 2015, Finance hired a third FTE, yet Finance continued to allocate 74% of its budget to Water and Sewer even though the number of bills and PW employees did not increase. At this point, the allocation should have been reduced to reflect 1.5 FTE in a 3 FTE Department. Thus in 2015, the allocation should have been 50% reflecting a 1.5 FTE dedicated to Water and Sewer. (3 FTE minus 1.5 FTE equals 1.5% or 50% of the staff).
- 5) In 2016/2017, Finance added another hire bringing the department total up to 4 FTE. This is a doubling of employees from 2014. The number of utility customers remained the same and remains the same. At this point, the finance department should have reduced their allocation to Water and Sewer to 37.5% to reflect 1.5 FTE out of a total of 4 FTE.
- 6) The failure to adjust the allocation, resulted in massive overcharging of customers.

See below a detailed accounting below:

This Data represents the Finance Department's Budget and Includes the Cost Allocation Rate used, the payment from the General Fund, the payment from the Water Enterprise Fund, the payment from the Sewer Enterprise Fund and the Finance Department's total budget.

In all instances, the General Fund pays considerably less than the Enterprise Fund even though the majority of work done by the Finance Department is in General Services for the City.

FY 2015/2016	General Fund	Water	Sewer	Total Budget
74% CAP Used	\$124,340	\$180,332	\$175,586	\$480,258

If the allocation was reduced to 50% to reflect an increase in staff by 1 FTE, then the allocation to water and sewer should have been \$240,129. By keeping the allocation static, The City overcharged by \$115,789.

FY 2016/2017	General Fund	Water	Sewer	Total Budget
72% CCAP Used	\$152,425	\$222,566	\$216,709	\$606,800

In 2016/2017, finance added another new hire bringing the total FTEs to 4. The allocation should have been reduced to 37.5% to reflect the 1.5 FTE dedicated to Water and Sewer. Accounts remained static. A 37.5% allocation charge to Ratepayers would be \$227,550. The City overcharged by \$211,725.

FY 2017/2018 (don't have budget) - Estimate \$232,897.50 overcharge (10% increase)

FY 2018/2019 (don't have budget) - Estimate \$256,187.25 overcharge (10% increase)

FY 2019/2020 (don't have budget) - Estimate \$281,805.97 overcharge (10% increase)

FY 2020/2021 (don't have budget) - Estimate \$309,986.57 overcharge (10% increase)

NOTE: Budget for Finance doubles in 4 Years. Yet, the number of water accounts remains static.

FY 2021/2022	General Fund	Water	Sewer	Total Budget
74.62% CAP	\$306,073	\$456,110	\$444,107	\$1,206,290

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$452,358.75.

The City overcharged by \$447,859.

FY 2022/2023	General Fund	Water	Sewer	Total Budget
Finance	\$339,720	\$509,078	\$495,682	\$1,344,480

74.73% CAP

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$504,180.

The City overcharged by \$500,580.

FY 2023/2024	General	Water	Sewer	Total Budget
71.6% CAP	\$397,919	\$508,319	\$494,942	\$1,401,180

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$525,442.50

The City overcharged by \$477,818.50.

From 2015 - 2024 the City overcharged the Ratepayers at minimum \$2,845,489 (a final number will be available once all budgets are analysed) due to the fact the finance department failed to adjust its allocation to reflect 1.5 FTE out of 4 FTE.

SOLUTION: ALL SALARIES AND BENEFITS FOR FINANCE SHOULD BE DIRECT BILLED. ADJUST TO 1.5 FTE FOR BOTH WATER AND SEWER. .5 FTE ADMIN TECH AND .25 ACCOUNTANT FOR WATER AND .5 FTE ADMIN TECH AND .25 ACCOUNTANT FOR SEWER.

CHANGE FINANCE WATER & SEWER MODEL FOR EFFICIENCY.

- 1) ADMIN TECH CUSTOMER SERVICE HOURS 8-NOON MONDAY - THURSDAY AND ADMIN FUNCTION 4-5 MONDAY-THURSDAY.**
- 2) SEPARATE PO BOX FOR WATER AND SEWER.**
- 3) PAYMENT BOX IN CITY HALL THAT IS AVAILABLE WHEN CITY HALL IS OPEN.**
- 4) EYE ON WATER APP VIDEOS ON CITY WEBSITE.**
- 5) CONSIDER CLOSING COMMERCIAL WATER OPERATION IF THE EXPENSES ARE GREATER THAN THE PROFIT.**

Finance/Administrative Services
Is 1.5 FTE Justified? Or is 1 FTE/ 25% Allocation More Accurate?
75% is not Justified - Ratepayers Need to Be Reimbursed for Overcharging
The Water and Sewer Bill is Combined.
Ratepayers should not be charged 2x for sending out the same bill.

- 1) Per Prop 218 and Prop. 26, Ratepayers are only required to pay for services directly related to Water and Sewer service. In the Finance Department's self produced budget job description and workload produced for the City budgets, Water and Sewer are rarely mentioned. In the below description only 1 out of 48 tasks mentions water and sewer. These narratives are present in all budgets from 2014-2023.

- 2) Finance Department is responsible for Finance, Human Resources and Risk Management and performs many general services tasks for the City that are not related to Water and Sewer. For instance, the 2023 - 2024 City budget is 287 pages long. Water and Sewer account for 7 pages (pages 184-191) or 2.43% of the budget. Is 2.43% a more accurate reflection of the Finance's Department time spent on Water and Sewer?

- 3) Given the wide range of tasks outlined below. Is 1.5 FTE justified?

- 4) 3 FTE or 75% of the Finance budget expensed to Water and Sewer is not legally defensible.

- 5) 1 FTE or 25% of the Finance Department budget seems more appropriate if billing and customer service are streamlined to 1 administrative assistant at .75 FTE and 1 senior administrator at .25 FTE. If customer service hours are reduced to 8-noon M-T with an additional hour from 4-5 for mail collection and payment processing, that would be an assistant at .5 FTE. This would leave an additional .25 FTE for the assistant. The senior position could have 520 hours per year, which seems adequate given the fact that bills are only generated 6x per year, the Enterprise budget is only produced quarterly, contract invoices are less than 10 and Public Works is the only department directly associated with Water and Sewer and their time should be allocated at 35%.

- 6) Water and Sewer bills are sent out 6x per year and are combined. The current allocation model bills each Enterprise fund separately. This would appear to be a double charge as 1 or 1.5 FTE would be taking care of both bills at one time.

SOLUTION: Attribute 1 or 1.5 FTE Salary and benefits to Direct Billing. Allocate 25% or 37.5% Department Overhead to Water and Sewer combined, meaning 12.5% OR 18.75% Water and 12.5% OR 18.75% Sewer.

See the below narrative from the Finance Department for FY 2015/2016

Finance Department

The Finance Department provides support in three distinct areas: Finance, Human Resources, and Risk Management. This department is responsible for the control of the City's financial records; City payroll functions; Employee Benefit and Personnel administration; and Risk Management Insurance administration.

MANDATED

Finance

- Prepare Annual City Budget*
- Prepare Audited Financial Reports*
- Respond to Public Records Requests*
- Prepare Federal, State & County Reports*
- Prepare semi-monthly Payroll*
- Administer Bond Requirements*
- Administer Animal & Business Licensing*

Human Resources/Risk Management

- Ensure compliance with federal and state-mandated requirements*
- Administer City's labor and employee relations program*
- Administer employee medical leaves*
- Administer compensation and benefits*
- Administer hiring processes*
- Serves as one of two City-assigned REMIF Board Members*

CORE

Finance

- Administer Utility Billing Operation*
- Process Accounts Payable/Receivable*
- Process Cash Receipts*
- Perform Treasury Management*
- Perform Financial Analysis*
- Administer and Maintenance ongoing of the City's User Fee Schedule*
- Administers the Street Lighting Assessment District, and the Woodstone Assessment District*
- Maintains the Fixed Asset inventory*

Human Resources/Risk Management

- Provide notice to employees of medical leave and benefits rights under law*
- Resolve return to work, risk management, and safety issues with supervisors and*

managers

Coordinate with oversight and benefit administration organizations
Design and maintain classification and compensation structures
Provide direction to payroll staff for legal compliance for 100 employees
41 Compile and maintain official personnel records for all employees
Maintains and manages the City's Payroll, Personnel, Medical, and Worker's Compensation records
Creates and implements various employee benefit / insurance programs and policies as needed
Updates job descriptions for all departments
Administration of required AB1825 Anti-Harassment training for City staff
Serves as the insurance and benefit administrator for City staff
Manages Public Employee Retirement System program
Administration of the Health, Life, Short Term and Long Term Disability insurance programs
Administration of the City's self-funded Dental and Vision insurance programs
Administers the City's Child Care benefit program
Administers City's 457 Deferred Compensation programs
Administers FMLA Family Medical Leave Act leave of absences for employees
Administers the City's Medical After Retirement programs
Administers the COBRA program for former employees and their dependents
Administration of HIPAA privacy act
Assists employees with all of the City's benefit programs
Responsible for managing REMIF's Risk Management programs including City insurances for Property Insurance, Liability Insurance, Vehicle Insurance, Earthquake & Flood Insurance, and Boiler Insurance
Responsible for managing REMIF's Employee Insurance programs including Health Insurance, Life Insurance, Short Term and Long Term Disability Insurance, and Voluntary Life Insurances
Responsible for management of REMIF's Workers Compensation Insurance coverage
Responsible for maintaining REMIF's list of all property insured for the City including City buildings, City property and the City's vehicle and equipment fleet
Staffing levels for this department were increased mid-way during the 2012/13 fiscal year.

For the 2015/16 fiscal year, the department employed three full-time employees, which matched our staffing levels in calendar year 2009. Even with three full-time employees, our staffing level remains below the high mark of four full-time employees, which the department maintained for most of the 1980's and 1990's. The Director continues to

recommend that staffing levels be increased to four full-time employees.

Major Accomplishments in 2014/2015:

Responded to and provided information for numerous Public Records Requests.

Continued to assist with employee negotiations for the three employee union organizations.

Continued to assist the City Manager with multiple salary and job description modifications.

42 Relocated Finance Director's office to the east-side of City Hall building.

Relocated City Hall's server to upstairs office.

Redesigned and made improvements on the City's annual budget.

Contacted a consultant firm to obtain Citywide I.T supports.

Objectives for 2015/2016:

Upgrade the City's financial software

Update cell tower lease agreement slated to expire June 2016

Collaborate with City Clerk's Office in updating Personnel Resolution

Enhance and invest into staff development

Continue to improve the City's annual budget

Continue to streamline for efficiency with year-end close processes

**ADMINISTRATIVE SERVICES (FINANCE) DEPARTMENT
Narrative for the City's 2023- 2024 Budget (pages 69-71)**

Accountant/Analyst (Confidential)

1.00 FTE

Administrative Services Director

1.00 FTE

Administrative Technician

1.00 FTE

Accountant 1.00 FTE

- Prepare Annual City Budget
- Prepare Audited Financial Reports
- Respond to Public Records Requests
- Prepare Federal, State & County Reports • Prepare bi-weekly Payroll
- Administer Business Licensing
- Ensure compliance with federal and

MANDATED - state-mandated requirements

- Administer City's labor and employee relations CORE • Administer employee medical leaves

- Administer compensation and benefits
- Administer hiring processes

CORE

- Administer Utility Billing Operation
- Process Accounts Payable/Receivable
- Process Cash Receipts
- Perform Treasury Management
- Perform Financial Analysis
- Administer and Maintenance ongoing of the City's User Fee Schedule
- Administers the Street Lighting Assessment District
- Maintains the Fixed Asset inventory
- Design and conduct recruitment and selection procedures
- Assist outside HR Advisor to provide notice to employees of medical leave and benefits rights under law
- Coordinate with outside HR Advisor return to work, risk management, and safety issues with supervisors and managers
- Coordinate with oversight and benefit administration organizations

DISCRETIONARY

- Coordinate the provision of mandatory supervisory training, and of non-mandatory supervisory and managerial training related to legal compliance in employment practices
- Assist outside HR Advisor to confer and coach employees at all levels to identify and resolve workplace concerns
- Compile and maintain official personnel records for all employees
- Maintain, update and disseminate employment-related City policies and procedures

DISCRETIONARY

- Perform Internal/External Audits
- Support Grant Award Administration
- Support City Council Meetings
- Support review Contractual and Lease Agreements
- Assist with performance of Feasibility and Cost-Benefit Studies
- Act as the City's California Public Employees Retirement System liaison

Major Accomplishments in 2022-23:

Received the Distinguished Budget Presentation Award (7th time recipient)
Received the Certificate of Achievement for Excellence in Financial Reporting (6th Time recipient)
Selected a Financial Advisor to assist the City in revenue enhancement, and/or debt refinancing opportunities

Issued RFP/RFQ for Water Rate Study and Human Resource

Developed and Implemented city-wide budget module

Completed Utility User Tax (UUT) ballot

Goals and Objectives for 2023-24:

To fill the remaining vacancy in the Administrative Services Department Issue RFP for

Cost Allocation Plan (CAP)

Create internal service funds

Create 115 Pension Trust

Assist and support Public Works & Engineering with water rate study

Assist Police with email conversion

Convert citywide email domain name from dot.org to dot.gov for security reasons

Continue to be the recipient of the Distinguished Budget Presentation Award

Continue to be recipient of Certificate of Achievement for Excellence in Financial Reporting

Performance Measurements

Unqualified opinion on annual comprehensive financial statements

Percentage (100%) of staff indicating an understanding of internal controls, such as time reporting and adhere to purchasing & travel reimbursement policies

Percentage (99.9%) of accurate tax reporting forms (W-2s and 1099s)

Percentage (5%) utility billing collection rates and number of shut offs

Percentage (0%) of revenues subject to audit or review

Public records act requests fulfilled

Number of reviews and audits conducted

Timely submission of required reports:

State Controller's report

- Street Report
- State Compensation Report
- Annual Maintenance of Efforts (Proposition 172)
- Single Audit

Public Works An Accurate Allocation is Needed

- 1) Public Works is a critical department for Water and Sewer. They perform routine water testing, sewer line flushing, maintenance and repair. It is important to get the Public Works allocation correct as they are the single City Department most directly associated with Water and Sewer Service.

- 2) Until recently, Public Works has not tracked their time spent on Water and Sewer. The Public Works Department has 10 laborers who work 100 hours per week. Time tracking from January and February 2026 indicate that Public Works Employees spend approximately 20% of their time on Water and Sewer. The new Public Works director says that might be higher, perhaps 30%. This would translate to approximately 2-3 FTE in terms of labor and perhaps .25 FTE in terms of Management. (SEE Public Works Narratives from previous budgets which show the huge range of tasks - parks, roads, holiday decorations, bathroom repair and management, homeless cleanup, government buildings, public spaces - that Public Works performs outside of Water and Sewer Tasks.)

- 3) Using the new data, it would appear that 1.5 FTE in Water and 1.5 FTE in Sewer and a 15% allocation of the Corporate Yard for Water and 15% allocation of the Corporate Yard for Sewer would be an appropriate allocation for Public Works.

- 4) Currently, Public Works has 2.85 FTE in Water and 2.3 FTE in Sewer as a distinct line item in the budget. For FY 2024/2025, Water had \$280,890 in salaries, Sewer had \$253,365 in salaries.

- 5) In addition, there are Salaries for Public Works in the Cost Allocation Plan. Water had \$309,277 in Public Works fees via the Cost Allocation Plan and Sewer had \$217,364 fees via the Cost Allocation plan.

- 6) Ratepayers are being overbilled and doubled billed for Public Works Salaries.

- 7) The amount allocated to the Corporate Yard needs to be reduced to reflect actual usage by Water and Sewer.

SOLUTION: Move all Salaries and Benefits to Direct Billing and remove salaries from Cost Allocation Plan. Track time to get an accurate FTE account which will most likely be between 2-3 FTE. Reduce amount of attributed expenses of Corporate Yard to reflect the actual usage by Water and Sewer. Read Budget narratives to get a full scope of Public Works Time spent on Water and Sewer.

City Council

What Percentage is Legal and Accurate

Per Prop. 218, Cost Allocation for City Council is highly regulated and must be documented.

Key Considerations:

- Direct Benefit Rule: Revenue from water/sewer fees must be used strictly for the service itself and cannot be redirected to unrelated city projects like parks, police, or general fund expenses.
- Proportional Cost: Charges must reflect the actual, proportional cost of providing the service to the parcel.
- Permissible Transfers: Transfers from utility accounts to the general fund are only allowed for valid reimbursements of services actually provided to the utility by the city.
- Audit Trail: If Council time is charged, it must be supported by documentation showing the time was dedicated to utility-specific tasks (e.g., rate setting, infrastructure decisions).
- Using enterprise funds for general council duties unrelated to water/sewer management violates the prohibition against using these funds for general governmental services.

1) City Council spends very little time on Water and Sewer. Until the recent formation of the Enterprise Oversight Committee, Council only addressed Water and Sewer at Budget meetings one time per year and with the occasional targeted project like the Syserco Loan. At most, Council spends 4% of their time per year on Water and Sewer.

2) For FY 2024-2025, Ratepayers paid \$102,674 for Council Time. For 2025-2026, \$104,658 is allocated for Council Time. This is not an accurate reflection of time spent on Water and Sewer and needs review.

SOLUTION: ANALYSE AGENDA ITEMS AND REDUCE COUNCIL TIME TO REFLECT ACTUAL TIME SPENT ON WATER AND SEWER. REDUCE ALLOCATION IN COST ALLOCATION PLAN.

City Manager/City Clerk What Percentage is Legal and Accurate

- 1) Using the same Prop. 218 guidelines, the City Manager and City Clerk must prove that their allocation of their time toward Water and Sewer is accurate. As there have been little to no management of the Water and Sewer Enterprise Accounts over the last 20 years and time has not been tracked by the City Manager and the City City, it is impossible to know what the proper allocation would be.
- 2) The Budget Narratives of City Manager and City Clerk show a huge amount of responsibilities that are for general City management and general City business.
- 3) Looking at Council Agendas, Water and Sewer take up less than 4% of the agenda items.
- 4) For FY 2024-2025, Ratepayers paid \$280,228 for City Manager.. For 2025-2026, \$286,063 is allocated for City Manager. This is not an accurate reflection of time spent on Water and Sewer and needs review. In addition, the City did not have a City Manager for the majority of 2025 and part of 2026.
- 5) For FY 2024-2025, Ratepayers paid \$101,163 for City Clerk. For 2025-2026, \$103,725 is allocated for City Clerk. This is not an accurate reflection of time spent on Water and Sewer and needs review.

SOLUTION: Analyze Budget Narratives, Council Agendas and track time to see what an accurate percentage would be for City Manager/ City Clerk. Reduce the Allocation accordingly which reflects documented time. In addition, Ratepayers need to be refunded the excess fees for 2024/2025 and 2025/2026 due to the vacant City Manager Position and inflated Allocation Rate.

Vacant Positions How Are Ratepayers Reimbursed

1) The City often has vacant positions such as the recent vacancies of the City Manager and the Director of Public Works. When the City is not paying salaries for vacant positions, how are Ratepayers reimbursed?

SOLUTION: TRACK VACANT POSITIONS ASSOCIATED WITH THE ENTERPRISE FUNDS AND REDUCE THE AMOUNT EXPENSED TO THE ENTERPRISE FUNDS. RATEPAYERS NEED TO HAVE REDUCED CHARGES FOR THE CITY MANAGER AND DIRECTOR OF PUBLIC WORKS VACANCIES.

PROJECTED V. ACTUAL EXPENSES CITY NEEDS TO BASE TRANSFER ON ACTUAL EXPENSES

1) The City uses projected expenses for budget forecasting. This is a standard procedure. At the end of the fiscal year, the City has the actual expenses. Per Prop. 218, the City should only charge Ratepayers for actual expenses.

SOLUTION: AT THE END OF EACH FISCAL YEAR, ADJUST COSTS FOR ENTERPRISE FUNDS TO MATCH ACTUAL EXPENSES. REFUND ANY EXCESS CHARGES.

City of Sebastopol Tiered Rates - Illegal

- 1) The City of Sebastopol implemented a tiered rate system in 2024 without providing any financial documentation for the rates. This is in violation of Prop. 218, prop. 26 and AB 1827.
- 2) The City of Sebastopol does not buy water and therefore does not have increased water costs if more water is used.
- 3) To run the City of Sebastopol's Water and Sewer system, the majority of costs are fixed and therefore not dependent on usage.
- 4) The City of Sebastopol's infrastructure is old and has not been maintained. In fact, Master Water and Sewer plans are being updated for the first time in 20 years. Thus any incremental damage by higher water users would have already occurred and not be the financial liability of current users.
- 5) As discussed in this document, many aspects of the Ratepayer expenses managed by the City need review and adjustment. Ratepayers will be receiving a refund for overcharges by the City. Therefore accurate pricing is unable to be calculated until the adjustments are made in Ratepayer Expenses.
- 6) To capture increased energy costs at Peak PG&E time, analyze what increases would be legal for water use between 4pm and 9pm.

SOLUTION: AS A TEMPORARY SOLUTION UNTIL THE CITY EXPENSES ARE UPDATED, DO NOT CHARGE TIERED PRICING AND USE THE LOWEST TIER. IN THE FUTURE, IMPLEMENT HIGHER TIERS FOR WATER USAGE DURING PEAK ENERGY COSTS AS DETERMINED BY PG&E PEAK PRICING.

AB 1827 (2025) Tiered Rate Pricing - City Must Provide Proof

AB 1827 provides a "safe harbor" for water agencies to continue implementing conservation-focused, tiered pricing, as long as they can demonstrate the costs are proportionately higher for high-volume users

Tiered water pricing in compliance with California Assembly Bill (AB) 1827 (2024) allows water agencies to charge higher rates for higher water usage, provided that those rates are based on the actual, incremental costs of supplying that water (e.g., peak demand costs, extra infrastructure) rather than purely on conservation incentives

To justify tiered rates under [AB 1827](#) with existing infrastructure and no purchased water, a city must provide defensible, data-driven evidence that higher usage tiers cause higher, proportional costs (e.g., peak demand infrastructure stress, increased pumping/treatment). The rates cannot be arbitrary, even for conservation, and must adhere to Prop 218.

Key Requirements to Justify Tiers:

- **Cost-of-Service Analysis:** The city must prove with data that higher usage tiers specifically cause higher costs, not just that users consume more.
- **Peaking Factors:** AB 1827 allows justifying higher rates based on peak usage demand or maximum potential water use. Even with built-out infrastructure, higher, simultaneous demand might require higher pumping rates or faster capacity depletion.
- **Proportionality:** The rate per unit in higher tiers must be proportional to the cost of serving that specific level of demand.
- **Documented Data:** The city must have studies showing that, for example, Tier 3 water costs more to deliver than Tier 1 due to the need for peak-load management.

How Much More Can They Charge?

- **No Fixed Amount:** AB 1827 does not set a specific multiplier.
- **Cost-Based:** The amount is limited by the documented incremental cost. If, for example, peak demand forces the city to run extra pumps (energy costs) or treat water differently, those specific additional costs determine the rate hike.
- **Legality:** The rates must not exceed the proportional cost of providing service. If the city cannot prove that high-tier users cost significantly more to serve than low-tier users, high, punitive, tiered rates are likely to be found unconstitutional.
- UC Agriculture and Natural Resources +4
-

Essentially, the city needs a technical, evidence-based report (often using American Water Works Association (AWWA) standards) to justify the price difference.

Tiered Rates - Time of Use Metering and PG&E Pumping Costs

A city or water agency in California can charge higher rates for water used during PG&E peak hours (typically 4 pm–9 pm) under Assembly Bill 1827 (AB 1827), provided the rate structure is directly supported by cost-of-service data

AB 1827, which went into effect on January 1, 2025, allows water agencies to pass on the incrementally higher costs of providing service—such as higher electricity rates for pumping—to customers who create that peak demand.

Here is the breakdown of how this works in accordance with California law:

1. The Legal Basis (AB 1827 & Prop 218)

- **Proportional Cost:** Proposition 218 requires that fees for water service not exceed the proportional cost of service to a parcel.
- **AB 1827 Authorization:** This law clarifies that agencies can allocate costs based on "projected peak water usage". It explicitly permits agencies to consider the higher costs associated with specific times of high water demand.
- **Justification:** The city cannot simply charge more because it is "conservation-oriented." The higher, tiered, or time-of-use rate must be supported by evidence showing it actually costs more to pump, treat, or deliver water during those peak hours.

2. The Relationship to PG&E Rates

If the city pumps water directly into the system or fills tanks during the 4 pm–9 pm peak window, it incurs higher electricity charges from PG&E. AB 1827 authorizes the city to pass these specific "incremental" energy costs onto the customers who are using water during that time.

3. Requirements for the City

- **Data-Driven:** The city must have data proving that the costs of operating the water system are higher during these specific hours (4 pm–9 pm).
- **Time-of-Use Metering:** The city must be able to accurately measure water usage during those hours for the rate to be deemed fair and proportional.
- **Not a Penalty:** The higher rate must reflect actual cost-of-service, not a penalty designed merely to discourage usage.

Summary

AB 1827 strengthens the ability of municipalities to implement Time-of-Use (TOU) rates that align with utility peak pricing (like PG&E's 4–9 pm window). However, the city must conduct a study to prove that the rate increase directly matches the increased cost of operating the system at that time

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

Department	NEW COST PLAN					
	FY24-25			FY25-26		
	Water	Wastewater	Total	Water	Wastewater	Total
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
Total	852,863	908,934	1,761,797	845,358	950,965	1,796,323

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"

This is the current model Costs Allocation Model. 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.
- a. 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.
 - b. 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.”

Agenda Item Number 4

Work Assignments		
Date:	Water	Sewer
1/5/2026	19	12
1/6/2026	16	15
1/7/2026	18	16
1/8/2026	17	14
1/12/2026	17	25
1/13/2026	15	19
1/14/2026	15	19
1/15/2026	15	19
1/20/2026	21	20
1/21/2026	42	15
1/22/2026	30	13.5
1/26/2026	22	19
1/27/2026	20	14
1/28/2026	24	12
1/29/2026	16	17
2/2/2026	23	17
2/3/2026	17	23
2/4/2026	19	21
2/5/2026	16	6
2/9/2026	15	9
2/10/2026	14	40
2/11/2026	12.5	33
2/17/2026	15	27
2/18/2026	19	41
2/19/2026	16	27
2/23/2026	16	18
2/24/2026	23	18
2/25/2026	25	9
2/26/2026	22	5

Public works hours tracked by Eric Billing.