From:	[redacted]
To:	Mary Gourley; Oriana Hart; Torran Korman; Sandra Maurer; Phill Carter
Cc:	Jill McLewis; Stephen Zollman; Neysa Hinton
Subject:	Public Comment EFOC/Budget Committee Meeting 11/2/2026 : Clear Source Model - How it works and what it overcharges
Date:	Sunday, November 1, 2026 8:22:33 PM
Attachments:	Clear Source Model how it works and what it overcharges.pdf

To EFOC, Budget Committee and City Council

One of the goals for the November 2 EFOC meeting is to interview prospective consultants to create a new cost allocation scheme/model to properly allocate general fund expenses related to delivery of water and wastewater services.

The Clear Source Model used for the last 2.5 years was an incredibly complicated approach to shifting general fund expenditures to rate payers. It was never clearly explained by Clear Source, and it appears that behind the scenes there were decisions made to modify the allocations without anyone noticing or understanding what was going on. The city's goals of restoring trust and transparency call for a new approach that is easy to understand and easy to implement.

Attached is an in-depth analysis of how the Clear Source Model works and how it changed over the three versions that have been implemented. AI was used to analyze all of the Clear Source presentations to explain how that model worked. In the process the model was replicated and tested with results within 1% of the actual model outputs. This model was then used to test changes to the model that removes the costs that are not in the spirit of fairness nor proposition 218 and 26.

The attached presentation explains how the model works. Eight problems with the Clear Source Model are identified and explained. Examples of issues include:

- The inclusion of the $200,000 R3 consulting trash hauler contract in the cost pool - unrelated to water and wastewater and reimbursed by the selected trash hauler. This and other non-water related expenses shifted $448,000 from the general fund to rate payers
- Inclusion of the Santa Rosa Sewage treatment ($2MM) contract in Sewer expense which forces an additional $256,000 in general fund expenses to the rate payers.
- Capital oversight expenses allocated based on the proportion of the city's capital assets to the capital assets (pipes, pumps, tanks) except the city made the decision to understate the city's share by not including $7.8MM of city buildings in the pool which forced $155,000 of general fund expenses to the rate payers.

Over the two budget years the model overcharged $500,000 a year. Added to the Grand Jury

calculation of $5.5MM in overcharges, the city has balanced the general fund budget with $6.5MM taken from rate payers. The city has been charging general fund expenses to rate payers for at least 15 years.

To stop increasing overcharges and liability to the city the next consultant needs to create an allocation scheme/model that is compliant with proposition 218/26 and one which is fair to rate payers. It should be easy to understand and for staff to implement. Final allocated costs should be based on the current year's actual expenses. If the city is taken to court, it should be easy to document all costs and their relationship to delivering water and wastewater services.

Rate Payers must not continue to be the city's solution to fixing the structural deficit.

[redacted]

Water and sewer customers paid about $1.26 million too much for City overhead

How the ClearSource model overcharged in FY 2024-25 and FY 2025-26: why, how, and how much

Prepared by Lee Mathias · October 2026

How the overhead charge works

1

City Hall has costs

Council, City Manager, Clerk, Attorney, Finance, Engineering, Buildings and the Corp Yard

2

A share is assigned to water and sewer

Based on how much of each department's work is for the utilities

3

That share is paid from your utility bills

About $1.8 million a year in FY 2024-25 and FY 2025-26

The law (Proposition 218)

Utility customers can only be charged for work actually done for water and sewer service, and the City has to be able to show it.

Inside the ClearSource model: four steps

1	**Build a cost pool**	Each department's budget, minus costs the consultant decided were not overhead
2	**Sort it by type of work**	Council and City Manager: 25% administration, 25% finances, 50% capital projects
3	**Share each type with a yardstick**	Administration by staff hours · Finances by spending · Capital by value of assets
4	**Spread it twice allocation**	Round 1 spreads costs to every department. Round 2 spreads them again, to the utilities

Every step involves a choice. In each of the four, the choices moved cost onto ratepayers.

What is a "yardstick"?

Consultants and staff call these "allocation bases" or "allocation factors." Shares shown are from the FY 2024-25 plan

A yardstick is what the model measures to divide a pile of cost. Each department pays the same share of the cost as its share of the measurement. Like splitting a dinner bill by what each person ordered, or by head count: same bill, different answer.

Pile of cost	Yardstick	What it measures	Water + sewer share
Administration	Staff hours	Each department's share of all paid City staff hours	**12.6%**
Finances	Spending	Each department's share of City spending	**28.6%**
Capital projects	Asset value	Each department's share of the book value of pipes, wells, streets and other infrastructure	**65.1%**

Consultants and staff call these "allocation bases" or "allocation factors." Shares shown are from the FY 2024-25 plan.

Pick a different yardstick and ratepayers pay a different amount for the same work.

What counts as administration, finances and capital?

Administration Spending

How the City is run

- Labor agreements, pay schedules, personnel rules
- City Manager recruitment and evaluation
- Service contracts; closed-session personnel and litigation

Plan assumes **25%** · agendas show **56%**

Shared by staff hours: **13% to utilities**

Financial Spending

Money decisions

- Budget hearings and amendments
- Audits, fee reports, long-term budget model
- Fees, waivers, assessments, tax and rate hearings

Plan assumes **25%** · agendas show **27%**

Shared by spending: **29% to utilities**

Capital projects Spending

Building or repairing public assets

- Capital Improvement Plan hearings
- Bids, contract awards, change orders, completions
- Master plans and engineering agreements

Plan assumes **50%** · agendas show **17%**

Shared by asset value: **65% to utilities**

The plan never defines these. Its 25/25/50 split is a "common distribution," not Sebastopol data.

Follow $100 of Council or City Manager cost through the model

Administration

$25

Shared by staff hours



13% to utilities

$3.15 charged to ratepayers

Finances

$25

Shared by spending



29% to utilities

$7.15 charged to ratepayers

Capital projects

$50

Shared by value of assets



65% to utilities

$32.55 charged to ratepayers

$42.85 of every $100 lands on water and sewer bills
The utilities account for only about 13% of City staff hours.

The formula: cost pool × yardstick = charge to ratepayers

City Council + City Manager, FY 2024-25 plan

Type of work	Cost pool		Yardstick		Charged to water and sewer
Administration	$146,288	×	12.6% Staff hours	=	$18,432
Finances	$146,288	×	28.6% Spending	=	$41,838
Capital projects	$292,575	×	65.1% Asset value	=	$190,466
Total	$585,151		43% overall		$250,737

Problems in either the cost pool or the yardstick flow straight into the charge.

The administration yardstick: Is 13% the proper allocation of all expenses to the Enterprises? Model charges 43%

Paid staff hours across the City (FY 2022-23 payroll)



13%

Water + Wastewater

87%

Police, parks, planning, streets and the rest

Each department's share of the City's paid hours decides its share of this quarter of the cost.

Council and City Manager cost charged to utilities

Council meeting time on water and sewer



4%

Staff hours yardstick



13%

What the model charges



43%

The fairest yardstick in the model, but it covers only a quarter of the cost.

The staff hours behind the 13% administration yardstick- Why the big change in 25-26 favoring the General Fund?

Compensated labor hours by department, from each plan's Exhibit 5. All three plans use the same FY 2022-23 payroll.

Department	FY 2024-25 plan hours	Share	FY 2025-26 update hours	Share	FY 2026-27 Scenario A
City Council	0	0.0%	0	0.0%	*same as FY 25-26*
City Manager	2,040	2.3%	2,040	2.5%	*same as FY 25-26*
City Clerk	2,048	2.3%	2,048	2.5%	*same as FY 25-26*
Finance / Admin. Services	6,206	7.0%	**0**	0.0%	*same as FY 25-26*
Engineering (central)	321	0.4%	**0**	0.0%	*same as FY 25-26*
Corp Yard	321	0.4%	321	0.4%	*same as FY 25-26*
Unclassified / CIP	1,525	1.7%	**0**	0.0%	*same as FY 25-26*
General Government	102	0.1%	102	0.1%	*same as FY 25-26*
Planning	4,363	4.9%	4,363	5.4%	*same as FY 25-26*
Building	1,020	1.1%	1,020	1.3%	*same as FY 25-26*
Fire & Prevention	5,405	6.1%	5,405	6.7%	*same as FY 25-26*
Police	43,532	48.8%	43,532	53.6%	*same as FY 25-26*
Public Works	9,412	10.5%	9,412	11.6%	*same as FY 25-26*
PW Community Facilities	1,706	1.9%	1,706	2.1%	*same as FY 25-26*
Water Utility	**5,872**	**6.6%**	**5,872**	**7.2%**	*same as FY 25-26*
Wastewater Utility	**5,349**	**6.0%**	**5,349**	**6.6%**	*same as FY 25-26*
Total hours	**89,223**	**100%**	**81,171**	**100%**	
Water + Wastewater share	**11,221**	**12.6%**	**11,221**	**13.8%**	**13.8%**

Same payroll, different totals

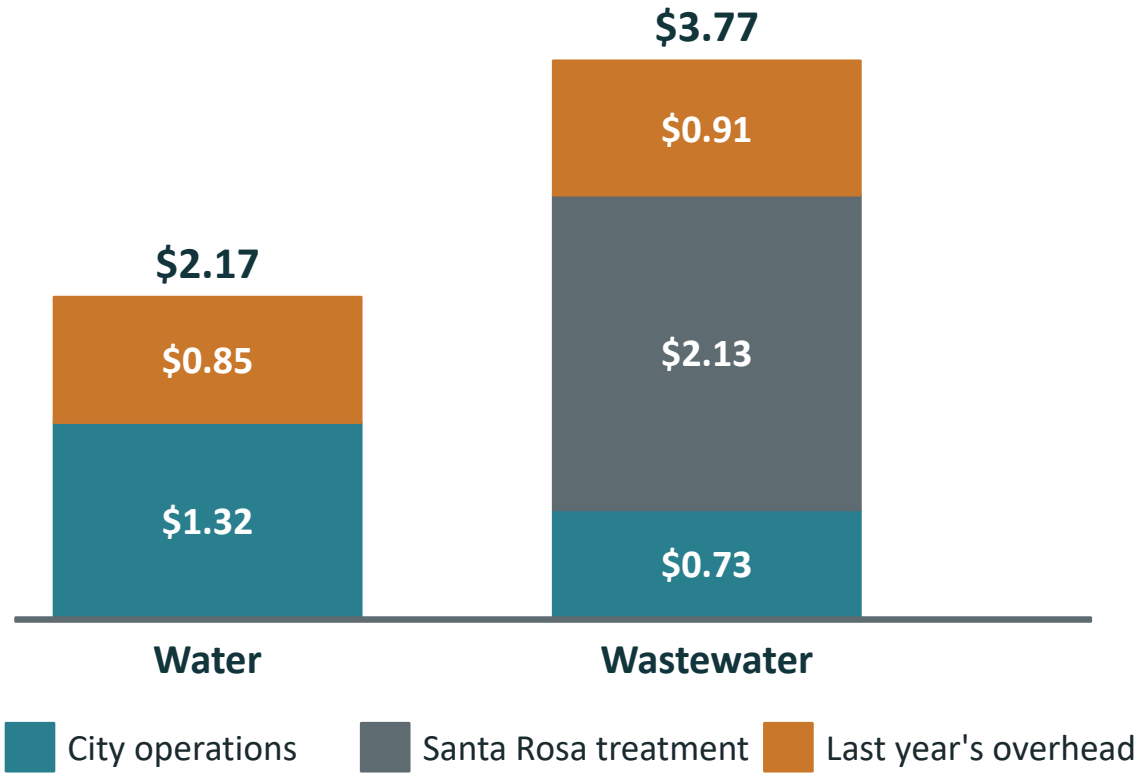
The update dropped 8,052 hours: all of Finance (6,206), central Engineering (321) and Unclassified (1,525).

The utilities' hours did not change, but their share rose from 12.6% to 13.8%.

City Council shows 0 hours in all three plans.

The finances yardstick: Wastewater spending includes $2MM SR treatment costs which is not city work

What the FY 2025-26 plan counts as utility spending ($ millions)



Utilities' share of the finances quarter

FY 2024-25 plan

28.6%

FY 2025-26 plan

26.6%

Plan's own measure without the distortions

12.7%

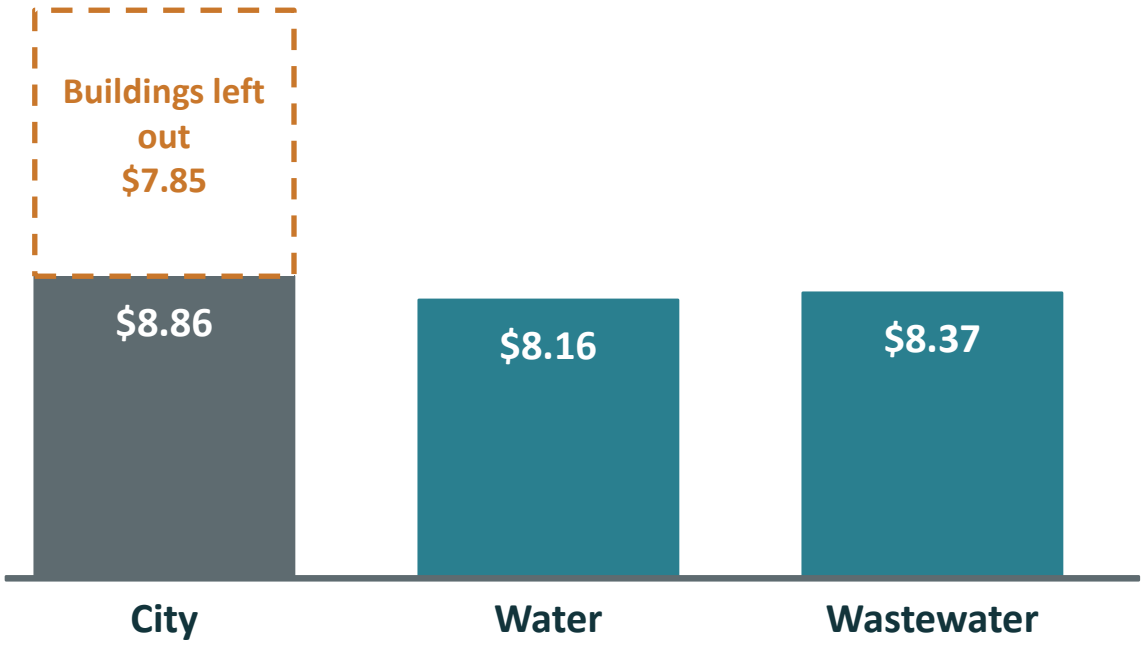
Also used for the City Attorney, City Clerk and Finance accounting.

Only about $2 million of the $5.9 million counted is City work. The rest doubles the share.

ClearSource overhead charges to Water and Wastewater · FY 2024-25 and FY 2025-26

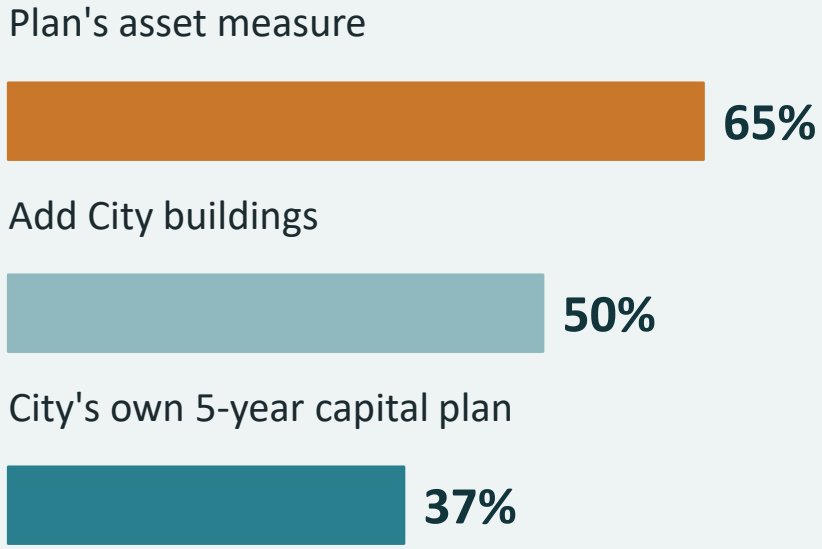
The capital yardstick: why 65% lands on ratepayers

Assets the plan counts ($ millions, original cost)



City streets built before 2003 are not on the books at all.

Utilities' share of capital work



Applies to half of Council and City Manager cost and all of Engineering.

Count everything the City owns, or follow the actual projects, and the share drops sharply.

Every yardstick in the model (FY 2025-26 update)

Yardstick	Pools it divides	Amount	Water + sewer share	Charged, first round
Staff hours	Council & City Manager admin; Payroll; HR; Non-Dept.	$525,982	**13.8%**	$72,586
Spending	Council & CM finances; Attorney; Clerk; Accounting	$1,885,248	**26.6%**	$501,476
Asset value	Council & City Manager capital; Engineering	$576,300	**65.1%**	$375,171
Utility accounts	Utility billing & customer service	$340,734	**100%**	$340,734
Personnel count	IT (Finance and Non-Dept.); Government Buildings	$447,367	**6.1%**	$27,289
Services & supplies spending	Accounts payable	$83,442	**21.3%**	$17,773
Revenue collected	Accounts receivable / cash receipts	$47,681	**90.1%**	$42,961
Public Works personnel count	Corp Yard administration	$235,637	**40.2%**	$94,726
Public Works operating spending	Corp Yard finances	$235,637	**47.3%**	$111,456
Total		**$4,378,031**	**36%**	**$1,584,172**

Nine yardsticks, each picked by the consultant. The second round lifts the $1.58M to the $1.80M billed.

Significant decisions were made to construct a model that consistently favors the general fund – many violate prop 218

FY 2024-25

Charged	Should have been
$1.76M	$1.24M

Overcharged

$522K

FY 2025-26

Charged	Should have been
$1.80M	$1.05M

Overcharged

$742K

Two years

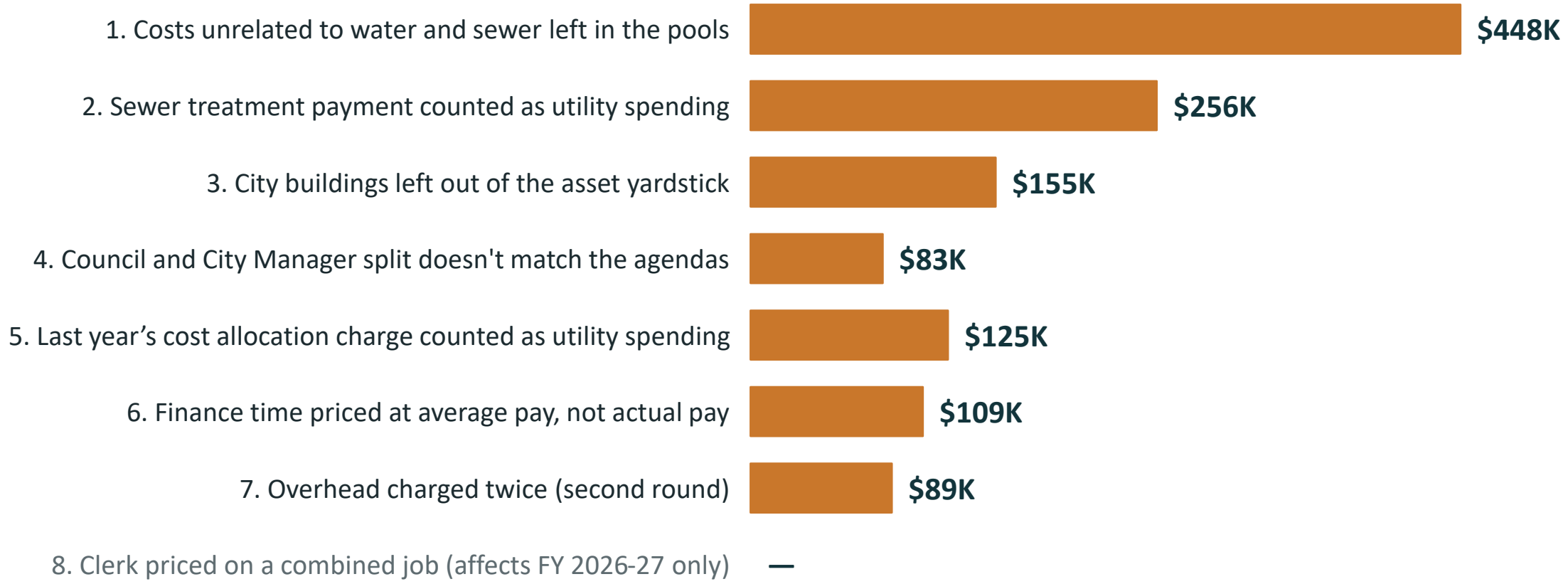
$1.26M

Less City Attorney share already returned in August: −$254K

Still owed: about $1.01M

Staff propose no refund for these years and give no reason. Water: $453K. Wastewater: $811K.

Eight problems, and what each cost over the two years the Clear Source Model has been used



Together: $1,264,405 over two years

Problem 1: Costs that have nothing to do with water or sewer

Cost to ratepayers, two years

$448K

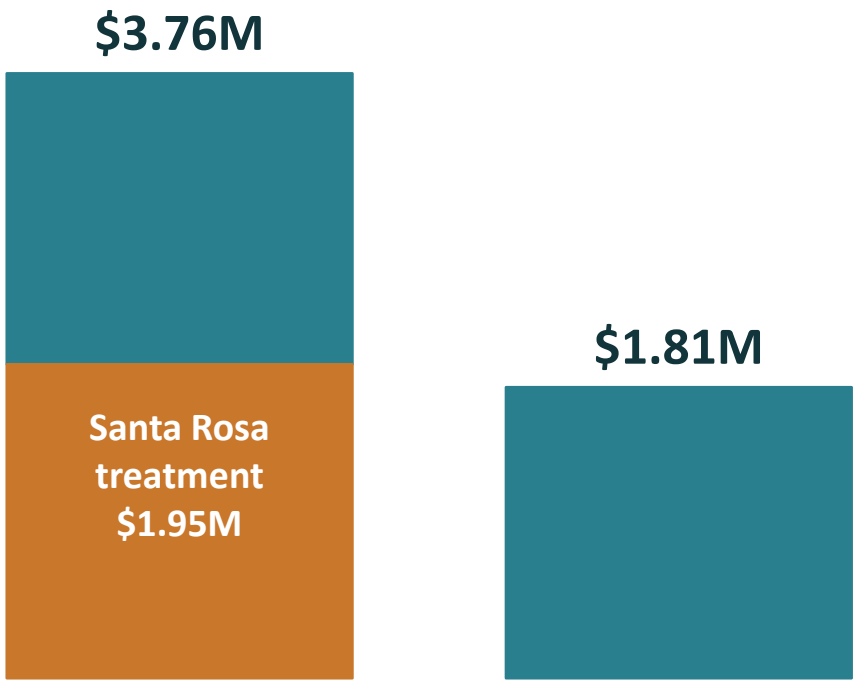
The biggest single problem

Examples in the cost pools (FY 2024-25 + FY 2025-26)

City Manager consultants: trash-hauler contract, communications, financial forecasting	**$288,200**
Council stipends and benefits	**$127,354**
Tax audits, property-tax fees, business licenses, Measure U polling	**$76,500**
Council dues, conferences, Sister Cities, legal notices	**$51,080**
Stormwater permits; library, museum and cottage upkeep	**$44,069**

Proposition 218 test: would the City have these costs even if it delivered no water or sewer service? Yes.

Problem 2: The sewer treatment payment makes Wastewater look twice its size



Sebastopol pays Santa Rosa about $2 million a year to treat its sewage. It passes straight through and takes little City staff time.

The model itself labels this payment a "distorting expense," then counts it anyway.

Because overhead is shared by spending, Wastewater picks up a much bigger share of City Hall costs than its work justifies.

Cost to ratepayers, two years: $256K

Fix: take the treatment payment out of Wastewater's spending, as the model's own label says.

Problems 3 and 4: Half of Council and City Manager cost rides on a bad yardstick (Capital Asset Values)

3 City buildings left out

65% → 50%

Capital work is shared by the value of City assets. Water and sewer pipes are counted, but City Hall, the police station and other City buildings ($7.85 million) are not. Older streets aren't on the books at all.

Cost to ratepayers, two years: $155K

4 The 25 / 25 / 50 split

50% → 17%

The model assumes half of Council and City Manager work is capital projects. Four years of Council agendas show about 17%. Most of their work is administration.

Cost to ratepayers, two years: $83K

Together these two choices pushed about $238K of Council and City Manager cost onto utility bills.

Problems 5, 6 and 7: The model's math feeds on itself

5

Last year's cost allocation charge counts as spending

From FY 2025-26, the overhead the utilities paid last year is counted as utility spending, which raises this year's overhead share.

$125K

6

Finance priced at average pay

Most utility billing is done by the lowest-paid Finance employee, but the model prices that time at the department's average pay.

$109K

7

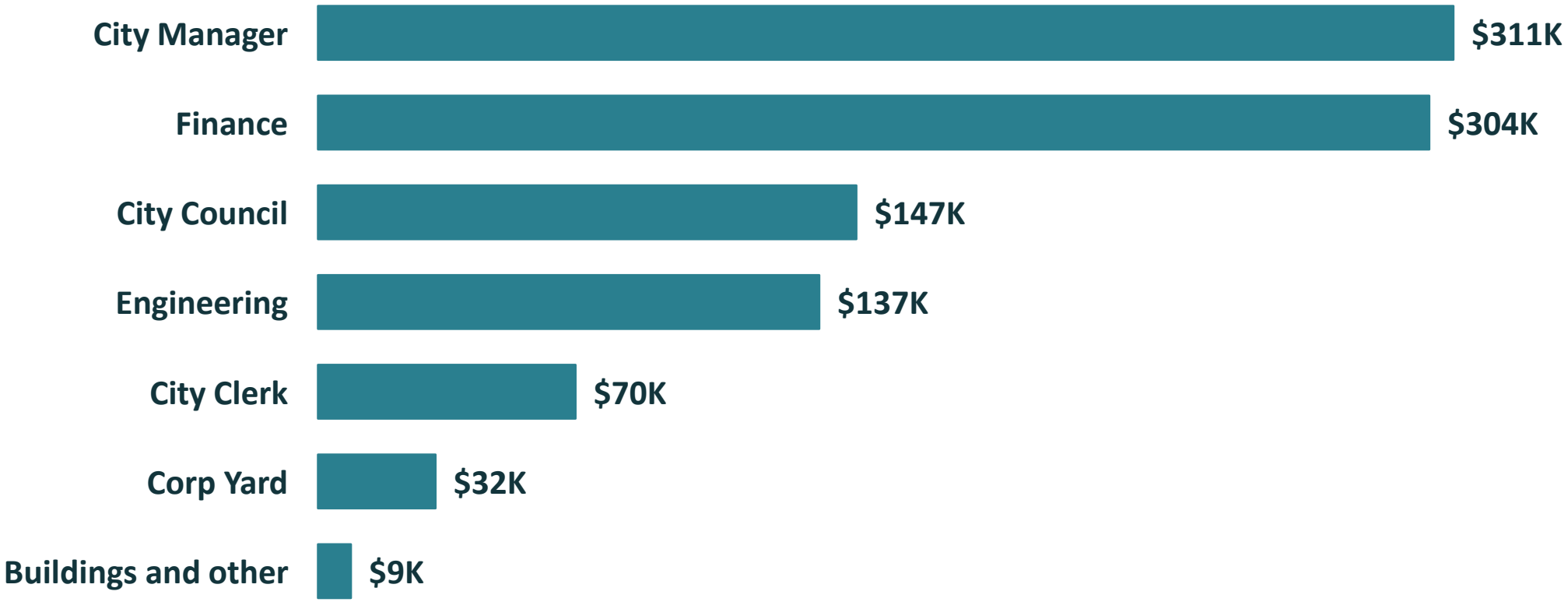
Overhead charged twice

Round 1 sends City Manager and Council costs to Finance, Engineering and the Corp Yard. Round 2 sends them on to the utilities again.

$89K

None of these can be traced to work done for water and sewer, as Proposition 218 requires.

Where the $1.01 million still owed came from (Overcharge less refuned city attorney fees)



City Attorney overcharges ($254K) are left out here: the August repayment already covers them.

The bottom line: FY 2024-25 and FY 2025-26

FY 2024-25

Charged	Should have been
$1.76M	$1.24M

Overcharged

$522K

FY 2025-26

Charged	Should have been
$1.80M	$1.05M

Overcharged

$742K

Two years

$1.26M

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Staff propose no refund for these years and give no reason. Water: $453K. Wastewater: $811K.

Why it matters now: the water system needs the money to fix aging infrastructure

$10.8M

of water work in the Water Master Plan (May 2026)

Not fully funded. Top priority: replacing Well 4 ($3.35M)

$5.0M

of loans for water proposed by city staff

Because the Water Capital Fund doesn't have the cash

≈ $9.8M

to repay a $5.0M loan over 30 years at 5%

Interest nearly doubles the cost of the work

Returning the $1.01 million would cover about 20% of that loan, and its interest would never be paid.

What needs to be done?

1. Acknowledge that FY 2024-25 and FY 2025-26 were overcharged
2. Return the remaining $1.01 million to the Water and Wastewater funds
3. Put it toward water and sewer capital projects, to borrow less
4. Reconcile both years to actual year-end costs
5. Fix all eight problems before the FY 2027-28 plan is created