

Date: 6/27/2023

To: Sebastopol City Council

Subject: Our Water and Wastewater Fund Deficits Threaten More Cuts, Sebastopol City Government Could Shut Down before the End of the Year

The Council focus to date has been Sebastopol General Fund expenditures. When will you address the current and anticipated future deficits in the Water and Wastewater Funds?

It appears that the proposed FY 23-24 budget for the new year starting next week will push Sebastopol's Water and Wastewater operation into a deficit so big that the city will run out of cash before the end of 2023. Budget Committee discussed "borrowing" money from the General Fund which may require other city departments to cut or delay up to \$800,000 in planned spending until increased Water and Sewer rates take effect on January 1, 2024. Note that to date the Council has not even begun discussions of such a rate increase.

During the Budget Committee Wrap up meeting on May 22, The Vice Mayor asked pointedly how we got to the point of the city running out of cash? Explanations included:

- Last rate study did not anticipate requirements to reduce water use and thus revenue.
- Last rate study did not include necessary capital expenditure to maintain water and sewer infrastructure. This was a mistake.
- Financing of new Water meters and the Solar Panels on the Library was not anticipated in the last rate study nor by city council when they approved the project and its financing.
- Significant increases in the costs of operating all city departments impact Water and Sewer rates through an allocation scheme.

Council seems to take decisions on Water and Sewer expenses casually. The decision to buy new water meters and pay for them with new debt was made in the context of saving more energy than the costs. It turns out Sebastopol did not have the money to pay the new debt. Now we are increasing water rates to pay for them.

Last year the Council approved the city purchasing two new pickups and charged them to Water and Sewer funds. These are listed as "Accomplishments". The Casual approach is seen again this year as the Budget Committee is supporting the purchase of a new dump truck from these funds in the next year without regard to the upcoming financial crisis. The city currently has two dump trucks on the vehicle list, and neither are scheduled for replacement. There are three fire trucks that are several years past replacement. Will the dump truck be discussed or go quietly forward like the two pickup trucks.

The Budget Committee may not have considered how increasing the City Manager Salary and Legal Expenses affect the rates we all pay for Sewer and Water. 40% of the City Managers salary benefits and department expense is allocated to Sewer and Water. This means we pay for it when we pay the water bill. The decision to increase Legal budgets to over \$600,000

means 8% of this amount is paid by water and sewer revenues. It is unclear what the defense costs against the ACLU have to do with delivering water and sewer services to the citizens of Sebastopol.

Nearly all city departments allocate some of their expense to Sewer and Water. City Manager and Legal are among the largest. 26% of City Council Expenses are paid by users of city water. 26% of the expense for operating city buildings is paid by our Water and Sewer fees. Even 18% of the expenses which are allocated to no department get allocated to Water and Sewer!

The finance department allocates 70% of their expenses to water and wastewater funds. This would suggest that Finance has primary responsibility for Water and Sewer. Given that the department description of duties, accomplishments and goals barely mention Water and Sewer, do we need to look hard at the focus of Finance managing the Water and Wastewater financial activities? Perhaps their expense should be shown fully in Water and Sewer and 30% of their time allocated to city finances so that priorities are clear.

OVERHEAD ALLOCATION					
Department	***** Percentage of Overhead Allocated by Fund *****				
	General Fund	T&U Fund	Water Fund	Sewer Fund	Total
City Council	74.0%		12.0%	14.0%	100.0%
City Manager	60.0%		20.0%	20.0%	100.0%
City Attorney	92.0%		5.0%	3.0%	100.0%
Assistant City Manager/City Clerk	85.0%		8.0%	7.0%	100.0%
Finance	25.0%		38.0%	37.0%	100.0%
Building	74.0%		13.0%	13.0%	100.0%
Planning	92.0%		5.0%	3.0%	100.0%
Engineering	38.0%		34.0%	28.0%	100.0%
Fire Services	93.0%		7.0%		100.0%
Police Services	89.6%	10.4%			100.0%
Public Works					
Corporation Yard		17.0%	48.0%	35.0%	100.0%
Government Building	50.0%		25.0%	25.0%	100.0%
Streets		100.0%			100.0%
Parking Lots	100.0%				100.0%
Parks & Landscaping	58.5%	41.5%			100.0%
Storm Water		100.0%			100.0%
Non Departmental	82.0%		9.0%	9.0%	100.0%

Some allocations make sense. Engineering would approve plans to repair water and sewer lines. 72% of their expense is allocated to Water and Sewer. Planning probably has a role in long term plans, although none has been done since 2005. Fire Services uses water? Nearly all of the corporate yard is allocated, I guess to store the equipment for capital projects which were not really anticipated in the Water Rate Study?

Shifting these “general city operating” expenses to Water and Sewer rate payers allows City Council to meet increased costs with just 3 council votes needed to raise water and sewer rates. Raising money for General Operating Expense requires a ballot measure and a significant proportion of all taxpayers to agree. This practice seems to have a high potential for abuse.

Water and Sewers are critical functions. How can we have gotten to the point that all city services must be cut while we wait for a Water Rate Study to be completed. The deficits were apparent 2 years ago and the current year plan had increasing deficits. At the end of the day citizen’s cutting water use are going to face unprecedented increases in rates to make up for this folly.

Something is wrong. We already pay a lot of taxes, and it is unclear how paying even more will make things better. It seems like funding for years has gone to pet projects proposed by various council members. The city needs leaders who focus every day on raising the quality of the essential services such as Police, Fire, Water and Sewer and Trash. We now know we should expect 26% of Council meetings will be addressing how to maintain and improve our Water quality and Sewer infrastructure. That is what we are paying for when the water and sewer bills arrive.

Budget Committee is blaming decreased “one time” grants that are not expected to recur. The problem we can control is a “projected decrease” in revenues for sales and TOT tax. Sales tax revenues are down for the first time in recent history. No other smaller city in the County is projecting such reductions. TOT Tax is also down significantly given the conversion of the Sebastopol Inn to other purposes. Projecting Sebastopol will be the only small city in Sonoma County to experience a significant recession seems like an important topic for City Staff and Council to discuss and mobilize resources to reverse.

The bad news is that without a significant change in approach, the citizens of Sebastopol are going to get a significant increase in water and sewer rates on January 1, 2024. Budget Committee signaled expected increases for the new Recology Contract which is currently being negotiated. This will be followed almost immediately with the opportunity to vote on ballot measures to increase property and sales tax rates. If City Council decides to outsource our fire department we face a future vote to accept an additional \$269 parcel tax!

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Sebastopol