EYE ON SACRAMENTO'S

FINAL REPORT

City of Sacramento Water and Sewer Rate Hikes

and

Infrastructure Repair Plan

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EXECUTIVE SUMMARY

Through years of neglect and underinvestment, the city's water and sewer infrastructure is a mess. The mess is a consequence of several factors: (1) the city council's historic failure to focus on long-term needs and its "core" government mission; (2) the failures of the city council and city managers to adequately oversee the Department of Utilities (DOU); (3) broken promises by DOU management on how revenues from earlier rate hikes would be spent; and (4) unsound city policy that has allowed escalating labor costs to crowd out infrastructure spending.

Even if the problem is fixed with massive new investment in utilities infrastructure, how can the city ensure that it doesn't backslide into such a mess again? The DOU can avoid a repeat of the current mess by returning utility tax revenues back to the DOU to sustain ongoing infrastructure investment, by adopting smart DOU oversight reforms, by providing specialized oversight of infrastructure spending, by securing concessions from city unions to free up funds for infrastructure spending and by adopting a number of labor reforms.

While framed as a proposed three-year hike in water and sewer rates, the DOU's plans to borrow $1.8 billion over the next several years will "lock-in" double-digit annual rate hikes for the next 10 to 15 years, as set forth in DOU rate projections The city council and the public need to be aware that, with the tripling of Regional Sanitation's sewer rates over the next eight years, the water and sewer rate hikes proposed or projected by the DOU, along with future expected hikes in storm drainage and solid waste rates, will push up the monthly city utility bills for a typical homeowner from $120 per month to over $380 per month over the next 15 years.

The city's proposed and projected rate hikes will have a profound impact on middle class and working class residents and those on fixed incomes. The proposed infrastructure repair program will impose an effective lien of $32,500 on the typical Sacramento home. With local unemployment now back up to 11.4%, 51% of all Sacramento homes underwater on their mortgages and an 8.1% drop in Sacramento home values last year and a further drop of 2.1% projected for the rest of the year, the city council could not pick a worst time to impose a major new financial burden on Sacramento's citizens and communities.

The recently discussed life-line subsidy idea fails the test of fairness as it would reward better off homeowners while doing nothing to assist worse off renters.

The proposed hikes will have major negative impacts on commercial property, the housing stock, new construction, property tax collections, local school districts and local economic growth prospects.

Before launching a project of this magnitude, the city should install a permanent DOU director with significant experience and expertise in planning and overseeing major, complex utilities infrastructure projects on the scale that is being proposed. The city council and the public must have confidence in the oversight capacity of DOU management, particularly in light of longstanding concerns with the functioning of the DOU.

With the planned rehab of the city's two water treatment plants and the city's placement of numerous underground, stand-by holding tanks in the central city over the past 10 years, the city has substantially diminished the risk of a water or sewer infrastructure failure causing either a significant threat to public safety or a serious disruption of life in Sacramento. According to DOU director Dave Brent, the principal risk of infrastructure failure is now limited to highly localized impacts that are not expected to endanger public health. Consequently, there is no public safety reason to initiate major rate hikes in the depths of the current recession and no reason to finance the bulk of the needed work with massive borrowings instead of funding the work on a "pay-as-you-go" basis.

City treasurer Russ Fehr has consistently advised the city council to limit the use of debt financing to only those big-ticket projects that simply cannot be financed out of current cash flow. He states that the city is "facing a debt nightmare" and that "borrowing for routine maintenance is insane."

Overreliance on utility debt financing and poor management of utilities infrastructure projects has led to two major municipal bankruptcies this year, in Harrisburg, PA, and Jefferson County (Birmingham), AL. Bond covenants, including coverage rations, can have capricious effects on utility rates and communities, particularly during sharp economic downturns.

The proposed first tranche of bond financing should only be used to rehab the water treatment plants. It should not be used to accelerate the installation of water meters, a strategy that would substantially increase ratepayers costs with no significant corresponding benefit.

The DOU's $250,000 public relations campaign to sell major rate hikes and infrastructure repairs to the public and the city council has been largely a waste of ratepayer funds. The DOU has maintained a false and misleading narrative on the nature and extent of the proposed rate hikes and has doggedly withheld from public view 15-year rate hike projections and financial plans that would have revealed the full extent of future rate hikes and infrastructure financing.

Eye on Sacramento advises the city council to: (1) to approve single-year hikes in water and sewer rates as a "placesetter" to provide the city with the time to renegotiate key labor agreements to unlock cost savings and enact needed reforms and DOU and project oversight measures; (2) authorize debt issuances only to finance the rehab of the city's water treatment plants; and (3) direct city staff to redesign its infrastructure repair program and its financial plan to fund the lion's share of the repairs on a prudent, less costly, less risky "pay-as-you-go" basis.

INTRODUCTION

Last year, the City of Sacramento's Department of Utilities (DOU) launched a major initiative to draw public attention to the plight of the city's neglected water and sewer infrastructure systems. The DOU's initiative was designed to lay the groundwork for Sacramento city council consideration of a staff-proposed 30-year program of major infrastructure repairs. The program entails double-digit, multi-year increases in water and sewer rates, city borrowings of an estimated $1.8 billion, interest costs of an estimated $1.5 billion and a collection of projects ranging from rehabilitation of the city's water treatment plants, acceleration of water meter installations, compliance with maintenance expenditure mandates and replacement of the city's water and sewer pipes and mains.

What staff is proposing would be the largest pubic works project in the history of the Sacramento region, involving an initial "hard" cost of $2.4 billion, but an ultimate cost, including interest, to city ratepayers of $3.9 billion. The program will impose a cost burden on the typical Sacramento homeowner of $35,450. The proposed program is several times larger in cost and scope than $1 billion Big Build project at Sacramento International Airport.

There appears to be a striking degree of community consensus and acknowledgement of the fact that the city's infrastructure is suffering from years (actually decades) of chronic underinvestment and neglect. Eye on Sacramento's concern with the proposed utility infrastructure repair program is not that the program is unjustified. Nor is our concern with the proposed scope of the repairs.

Our concerns are four-fold:

(1) How did the city get into the current mess?

(2) How can the city ensure that it doesn't backslide back into such a mess again?

(3) Is now the right time to try to fix the mess?

(4) Is debt financing the best or worst way to cover the bulk of the costs of fixing the mess?

EYE ON SACRAMENTO'S ROLE - SCOPE OF REVIEW

Eye on Sacramento is a California nonprofit public benefit corporation which has three principal functions: (1) to serve as a watchdog of the actions and policies of local Sacramento government and to help keep Sacramentans informed on such matters; (2) to generate smart policy solutions to challenging municipal problems; and (3) to engage in community outreach to discern community needs and aspirations and to disseminate information to the community.

In its work as a civic watchdog, Eye on Sacramento seeks to shed light on the inner workings of local government and to probe deeply into civic matters of public importance that have not received adequate public attention.

City utility operations and infrastructure are vital to the economic health and physical well being of our community. Maintaining reasonably priced municipal utility services is a major factor in attracting and sustaining business investment, economic growth, jobs and a healthy local tax base. Sacramento, as the holder of enviable water rights from our two rivers, has economically benefited from historically low water rates (Sacramento has no "wholesale" cost for its water), providing the city with a significant competitive advantage over other communities, an advantage worth preserving to the extent possible.

These are not topics which typically draw sustained attention by the general public or the media. Given the public importance of the issue and the historical lack of sustained public scrutiny and accountability on utilities issues, Eye on Sacramento elected in the fall of 2011 to commit significant time and attention to the issues of utility rate hikes and utility infrastructure modernization, coinciding with the DOU's launch of its public relations initiative to build public support for major new utility infrastructure investments.

For the past six months, Eye on Sacramento representatives have attended city council meetings, Utilities Rate Advisory Commission meetings and several city-sponsored public workshops on these issues. Additionally, EOS has maintained an ongoing bilateral dialogue with DOU management and representatives. EOS representatives have been active participants in a series of meetings and information exchanges between the city and the Sacramento Business Coalition, which has served as a focal point for detailed discussion and analysis of the issues. EOS has filed several public records requests with the city and received and reviewed over 1,000 pages of contracts, correspondence and other materials on the subject. Finally, EOS has consulted with former management and supervisory employees of the DOU, as well as independent engineers with experience in municipal utilities.

EOS has prepared this report for the purpose of illuminating for the public, local media and the city council the contours of these significant public policy issues under public and council consideration.

HOW DID THE CITY ITSELF GET INTO THE CURRENT MESS?

Manifestly, the problem of chronic underinvestment in utilities infrastructure is not a problem unique to Sacramento. The American Society of Civil Engineers issued a study late last year that reported that local governments in the U.S. have been underinvesting in water and sewer infrastructure by $55 billion annually. (http://geospatial.blogs.com/geospatial/2011/12/asce-report-on-the-impact-of-under-investment-in-water-infrastructure-in-the-us-.html).

But the fact that we face a problem common to many, perhaps even most, American cities should not keep us from examining how we came to our current sorry state of badly neglected utilities infrastructure. In examining the record and conducting interviews, we've indentified three principal causes:

1. **The City Council Has Historically Failed to Focus on the City's Long-Term Needs and its "Core" Government Mission.** Over the past 30 years, city councils have authorized a broad expansion of government programs and activities to meet demands from constituents for more expansive government services. The imbedded 11% utilities tax has been a growing source of general fund revenue that his helped fund this broad expansion of the scope and cost of city government. The utilities tax has, in recent years, moved up from the third largest source of general fund revenue to the second largest source. Sacramento's 11% utility tax rate is substantially above the utilities tax rates charged by most jurisdictions in our region.

Since the utility tax is an imbedded tax, and not one levied on top of rates, the city's growing dependence on the utility tax as a source of general fund revenue has come at the direct expense of funds that would have otherwise been available to assure adequate investment in utility infrastructure. Every dollar that the city has withdrawn from the DOU via the utility tax is a dollar no longer available to invest in infrastructure.

Dependable utility services, unlike many other government programs, require major investment in maintenance. They also require a city council that possesses a reliable, sustained focus on the city's long-term needs and refuses entreaties to sacrifice maintenance costs for the sake of new programs and expenditures.

The city council must also have an abiding commitment to the adequate maintenance and delivery of "core" government services (which utility services unquestionably are), funding such services before funding secondary or tertiary priorities.

2. Sacramento City Managers and the City Council Have Failed to Adequately Oversee the DOU. In interviewing past and present DOU employees at all levels, we have discerned one clear, overriding theme: the DOU operates with a corporate "culture" that is distinctly different from the culture prevailing in the rest of city government. In part owing to the fact that the DOU is funded by a series of "enterprise funds" and not funded out of the city's general fund, a culture has evolved over the past several decades which presumes that the DOU should not be subject to the same degree of budget discipline that is imposed on general fund-financed city departments, such as the police or fire departments. This cultural attitude of functional "independence" from the rest of city government is a not uncommon attribute of enterprise-funded departments in other cities. "We pay our own bills and have our own way of doing things," is a common cultural attitude at the DOU as it is in other enterprise-funded departments.

It is also a pernicious attitude as it tends to insulate DOU management and operations from tight fiscal and managerial controls that govern the rest of city government. Sacramento city managers have historically provided less direct oversight of DOU operations that they had over other city departments. A vivid example of the disconnect between the DOU and the rest of city government was illustrated during a round of major city layoffs in 2009. The then city manager directed each department chair to submit proposed budgets that reflected budget cuts of 10 to 20% of prior year funding. Department directors submitted budgets that contemplated the layoff of hundreds of city employees. Then DOU director Marty Hannemann, by contrast, submitted a budget that called for the layoff of just one employee, out of a department that employs several hundred and has a budget that represents approximately 25% of the entire city budget.

One of the fairly predictable byproducts of such insularity and inadequate oversight has been regular instances of abuse and scandal, ranging from large scale misuse of DOU funds in violation of Proposition 218, as revealed by the Sacramento County Grand Jury in its report of January 2010, to failure to perform basic due diligence on the authenticity of performance bonds submitted by DOU contractors, to theft rings operating out of DOU facilities (leading to felony convictions of supervisory personnel) to major accounting lapses that kept the DOU from being able to account for thousands of water meters for several months.

A scandal that has received no public attention to date, but is highly relevant to this inquiry, is the DOU's failures in recent years to spend revenue increases on promised infrastructure improvements, as discussed below.

3. In Recent Years the DOU Management Has Systematically Broken Their Promises to the City Council to Spend Rate Hike Revenues on Infrastructure Investments. Veterans of City Hall are familiar with an annual "budget kabuki dance" performed by DOU managers who appear before the city council during city budget hearings. The practice involves showing the council gruesome pictures of city water and sewer pipes in an advanced stay of decay. Sometimes, DOU staff will bring in actual sections of decayed pipe to display to the council to justify utility rate hikes requested by DOU staff. The council, dismayed by the condition of such pipes, would, more often than not, vote to give the DOU the rate hikes requested. DOU managers would promise council members that they would use new revenues to replace worn out water and sewer pipes and other infrastructure. The budget kabuki dance has been a standard ritual before the city council for over a quarter of a century.

What DOU managers performing the dance did <u>not</u> disclose to the city council or to the public is that, year after year, their promises to the council were false. Over the past several years, DOU managers have diverted funds from rate hikes that had been explicitly earmarked for infrastructure improvements and then used such for other purposes, most often to pay higher employee salaries and benefits to members of politically powerful city unions, as discussed below.

The DOU's dishonest track record of diverting rate hike revenues away from infrastructure spending was <u>not</u> uncovered during the three audits the DOU has undergone over the past year (outside financial auditor, outside efficiency auditor and a limited purpose audit by the city auditor). Nor was it uncovered by EOS's examination of DOU records and reports. It was candidly revealed by the current, interim director of the DOU, Dave Brent, at a meeting last fall between city representatives and the Sacramento Business Coalition. Brent was clearly troubled by the misconduct of earlier DOU management and he promised the Coalition that he would not engage in such practices during his tenure as DOU director.

Brent's account of prior DOU mismanagement is anecdotally confirmed by an internal DOU e-mail transmitted last year that acknowledges that the actual amount of money spent by the DOU on infrastructure investments in the past decade had actually *fallen* while the DOU's operating costs had *tripled* during the same period.

4. Major Hikes in Labor Costs Have Been Crowding Out DOU Spending on Infrastructure For Several Years. The dishonest diversion of rate hike revenues brought to light by Brent and the dramatic increase in DOU operating costs over the past decade were primarily driven by major increases in DOU labor costs over the period. The two city unions that represent the largest numbers of DOU employees are Local 39 of the Stationary Engineers (the city's largest union) and the plumbers & pipefitters union. In recent years, these unions have been the most resistant to calls by city management for wage and benefit concessions to bring city labor costs into alignment with diminished city revenues.

They are also among the most politically powerful unions in the city, with units of the plumbers and pipefitters union alone controlling an astonishing nine of the 46 large political committees qualified with the city clerk's office, which allows it to give jumbo contributions of up to $90,000 to mayoral candidates and up to $45,450 to council candidates (per election), an abusive practice which undermines the central purpose of the city's campaign finance ordinance.

A former member of the DOU management team reported to EOS in incident which revealed the extraordinary power that these unions wield over the city council and city management. The former official was privy to unit-level negotiations between the DOU and one of the DOU-based units of one of the unions. After the DOU negotiating team had won important concessions from the union at the bargaining table, DOU management received a phone call from the city manager. The city manager's instructions: give back the concessions.

The 5-year city labor contract with Local 39 that expired a year ago gave Local 39 members a 50% increase in non-pension employee benefits, as well as annual 4-5% pay hikes and step increases. A two-year extension of that agreement signed in the fall of 2010 required a net concession of just 1% of salary. The extension granted even more paid personal holidays to Local 39 members, bringing the number of paid personal holidays they enjoy each year to twelve, on top of vacation pay, paid public holidays, sick pay, paid bereavement leave, etc. Local 39 members now enjoy almost as much paid time off as the typical public school teacher.

Meanwhile, the DOU is paying increasing sums to PERS for DOU employee pensions. DOU employees who are members of Local 39 and the plumbers and pipefitters union currently pay only 4% of their salaries to PERS, while the city pays the remaining 3% of the employees' 7% share of PERS payments, as well the city's much more sizeable employer's share of PERS costs.

DOU employee health care costs are also hitting heavily into the DOU's bottom line. The city's 100% unfunded liability for retiree health care expenses is exploding, rising in the last fiscal year alone by $20 million, bringing the city's liability for such costs to an astounding $400 million. EOS estimates that the DOU's share of the city's unfunded retiree health care liability is approximately $80 million. With the rapid aging of the city's work force, the annual expenditures required to fund this benefit may rise sharply in the next several years.

Finally, the DOU is bedeviled by large numbers of worker compensation claims which has been raising its direct and indirect costs, such as overpay time for other employees to cover for missing employees.

5. Political Resistance to Higher Utilities Rates. There is no doubt that the city council was reluctant in recent decades to impose major rate hikes on their constituents to fund higher levels of infrastructure spending. The high profile scandals at the DOU have eroded public trust in the department, while city failures to control mounting labor costs call into question the city's commitment to containing costs. The public are understandably reluctant to support major rate hikes if they perceive that the DOU is not acting as a good steward of ratepayer money.

HOW CAN THE CITY ENSURE THAT IT DOESN'T BACKSLIDES INTO SUCH A MESS AGAIN?

There are number of lessons we can learn from the foregoing examination of the reasons for the city's chronic underinvestment in utility infrastructure. The city council should take these lessons to heart and implement the following reforms to ensure that we never again neglect our utility infrastructure.

1. Return Utility Tax Revenue to DOU for Infrastructure Investment. The city council should acknowledge that utilities infrastructure should have first claim on all amounts collected from utility ratepayers, including the proceeds of the 11% utilities tax that is currently remitted to the general fund, at least until such time as the city has eliminated all utility infrastructure deficits. Thereafter, the utilities tax revenues should be earmarked for deposit into a sinking fund to prefund anticipated maintenance costs. Only after the deficits have been eradicated and an adequate and continuous sinking fund contribution is established, should such tax revenues flow to the city's general fund.

2. DOU Oversight Reforms. The city manager and city council must provide much tighter oversight over the DOU, work diligently to change its current status as a cultural outlier, integrate its accounting system with the city's accounting system, maintain a city auditor presence within the DOU and install new DOU financial management.

3. Oversight of Infrastructure Spending. The city manager should install a tracking/reporting system to assure funds are spent as promised on infrastructure, not operating costs. The council should create and independently staff a bond oversight committee (common in school bond issuances) that is empowered to monitor and temporarily suspend spending of bond proceeds that are not spent in accordance with approved plans. The Utilities Rate Advisory Committee, as currently constituted, is not qualified, equipped or staffed to provide adequate bond oversight.

4. Securing Concessions From City Unions. The city will be renegotiating its labor agreements in the next year with the two unions that represent the largest number of DOU employees. The city should hold off on multi-year rate hikes until it has successfully renegotiated these agreements and unlocked cost savings by: (a) requiring employees to contribute 7% of their salaries to their PERS pension, which represents the employee's share of such costs; (b) controlling rising health care costs for both current and retired employees; (c) reducing the major recent increase in the number of paid personal holidays enjoyed by most DOU employees; and (d) bringing salaries in line with general fund budget realities. Deferral of multi-year rate hikes will also place the city in a more advantageous bargaining position next year vis a vis city unions.

5. Labor Reforms. The council should adopt an ordinance that delays for 14 days council approval of future city labor contracts so as to give the public and the media the opportunity to scrutinize its terms before adoption. The council should adopt an ordinance that bars the city from entering into any labor contract for a term that exceeds one year. Multi-year labor pacts have imposed a very heavy cost burden on the city in the past few years, locking in burdensome terms. There is no justification for impairing the discretion of the city council on labor cost matters for more than a single year. Finally, the council should amend the city's campaign finance ordinance to eliminate the plumbers and pipefitters union's abusive practice of registering nine large political committees.

6. Reestablishing Public Trust in the DOU. By adopting each of the foregoing reforms, the city council will make major progress in reestablishing public trust in the integrity and competence of the DOU.

THE CITY SHOULD INSTALL A PERMANENT DOU DIRECTOR WITH EXTENSIVE LARGE PROJECT EXPERIENCE

Interim DOU director Dave Brent has, as far we have been able to discern, done a good overall job of heading up the DOU in the eight months that he has held the position. Brent, however, does not, to our knowledge, have extensive experience and expertise in managing large scale projects of this magnitude. Before Sacramento County launched the "Big Build" at Sacramento International Airport, it made sure that is had management in place (specifically, Sacramento County Airports System director Hardy Acree) with extensive and proven national and even international experience in designing and overseeing large-scale airport construction projects. Due in no small part to Acree's leadership and management skills, the "Big Build" is a successful project that was brought in on-time and under-budget.

We are also concerned with the fact that the DOU has been rife with operational problems been a source of scandals for a number of years, earning it the reputation as the worst managed department in the city, as confirmed by the public comments of several current members of the city council. It has been the subject of critical reports by the Sacramento County Grand Jury, including one issued in January 2010 citing the DOU for illegally diverting approximately $25 million of ratepayer funds to cover general fund expenses.

Before launching a project of this magnitude, the city should install a permanent DOU director with significant experience and expertise in planning and overseeing major and complex utilities infrastructure projects on the scale that is being proposed. The city council and the public must have confidence in DOU management before launching such a massive and expensive project, particularly in light of longstanding concerns with the functioning of the DOU.

IS NOW THE RIGHT TIME TO FIX THE MESS?

The question of when to launch a program of major utility infrastructure repairs turns on two key issues: (1) what would the impact be on residents, businesses, jobs and economic growth of launching a repair program - and associated major multi-year, double-digit rate hikes - now rather some starting point in the future, balanced against (2) the risks of a failure of utility infrastructure in the next several years creating a significant threat to public health or a serious disruption of life in Sacramento.

In a recent interview of Sacramento city manager John Shirey by EOS president Craig Powell, Shirey was asked, "Given the current poor state of our local economy, is this the best time for Sacramento to kick-start a major overhaul of utility infrastructure?" Shirey answered by saying that, "We missed the best time to start the overhaul several years ago when the economy was humming." So if this is not the best time, is it nevertheless the right time?

To fairly answer that question, we must first determine what the rate hikes entail and then assess their likely or expected impact.

ACCURATELY ASSESSING THE PROPOSED RATE HIKES

For an honest discussion of the appropriateness of the proposed rate hikes, it is vital for the public to have a complete, accurate and contextual understanding of the multi-year nature of the proposed hikes and the concurrent rate hikes that have either already been provisionally approved by other jurisdictions (i.e. Regional Sanitation) or are highly likely to be imposed by the city in the near future (i.e. hikes in the storm drainage and, at some point, solid waste rates).

The DOU is seeking city council approval for three-year rate hikes for both water and sewer services. They are seeking hikes of 10% in water rates in each of the next three years. It is seeking hikes in the sewer rate of 16% in the first year, 15% in the second year and 14% in the third year.

Contrary to the statements of DOU staff and media accounts, the proposed project involves not a three-year schedule of rate hikes, but 15 to 30 years of major rate hikes *each and every year*. The massive scale and cost of the project, as currently proposed by staff, make such hikes an inevitability. The issuance of substantial bond debt to finance the project (a total of $1.8 billion, according to rough estimates released by DOU) will make such future rate hikes an unavoidable legal obligation of the city. Due to standard bond covenants that will mandate that the city maintain a certain minimum level of capital reserves and requirements that DOU water and sewer revenues stay sufficiently above debt payments, the DOU's internal 15-year and 30-year schedules of projected hikes are no longer mere forecasts, as in years past, but will become largely locked-in rate hikes that the city will have no choice but to approve or risk a bond default.

Overlaying Regional Sanitation Rate Hikes on to City Sewer Rate Hikes

The Sacramento Regional Sanitation District has already announced its intention to triple sewage processing rates (passed thru to every homeowner on their city utilities bill) over the next eight years to fund a new sewer plant. Typical homeowner rates charged by Regional Sanitation will rise from a current $22 per month to $68 per month. Set forth below are a series of three tables of monthly water and sewer charges for a typical Sacramento homeowner over the next 8 years based on the DOU internal rate projections and an overlay of provisionally approved Regional Sanitation sewer rate hikes.

The first table is a projection of increases in total monthly sewer charges for the Sacramento typical homeowner over the next eight years. It assumes that the $46 anticipated increase in Regional Sanitation monthly rates over the next eight years will be phased in on a straight line basis at a rate of $5.75 per year. As the table illustrates, the increases are dramatic:

Overlay of Proposed City Sewer Rate Hikes and Regional Sanitation Rate Hikes

	Now	2012	2013	2014	2015	2016	2017	2018	2019
City Sewer	$14.74	17.10	19.67	22.42	25.59*	29.14*	32.05*	35.26*	38.78*
Reg. San	22.00	27.75	33.50	39.25	45.00	50.75	56.50	62.25	68.00
Sewer Rates	$36.74	44.85	53.17	61.67	70.59	79.89	88.55	97.51	106.78

* Based on DOU's Projected 15-Year Sewer Rate Hike Schedule

To recap, total sewer rates (including the Regional Sanitation pass thru) will increase 68% over three years, 117% over five years and 191% over eight years. In years 10 thru 15, the DOU projects rates hikes will average 8% annually. We have no information on the DOU's schedule of projected hikes beyond the 20-year point.

Assuming Regional Sanitation raises its rates (for wastewater processing) by the same percentage as the city anticipates raising its sewer rates (for wastewater collection) in years 9 thru 15, total city sewer rates (including Regional Sanitation's pass thru rates) would increase from $106.78 in year 8 to $183.01 in year 15. This represents a hike of $146.27/mo. or 398% over the current monthly rate of $36.74.

Projected Water Rates: After 8 Years and After 15 Years

City water rates already start at a higher base rate than city sewer rates. While water rates will not rise quite as rapidly as sewer rates, the total dollar impact on ratepayers will be almost as burdensome over an eight-year period:

	Now	2012	2013	2014	2015	2016	2017	2018	2019
Water Rates	$34.35	37.79	41.56	45.72	50.29*	55.32*	60.30*	65.73*	71.64*

* Years 2015-2019 Based on DOU's Projected 15-Year Water Rate Hike Schedule

In percentage terms, water rates will increase 33% over three years, 61% over 5 years and 109% over eight years. DOU anticipates that the proposed project will require water rate hikes in years 9 thru year 15 that will drive monthly rates up from $71.64 in year 8 to $114 in year 15, amounting to a hike of $79.65/mo. or 232% over the current monthly water rate of $34.35.

Combined Impact of Water and Sewer Rate Hikes

The combined impact of explosive sewer and water rate hikes will hammer ratepayers over the next eight years, as the following recap of monthly residential charges illustrates:

	Now	2012	2013	2014	2015	2016	2017	2018	2019
Sewer Rates	$36.74	44.85	53.17	61.67	70.59	79.89	88.55	97.51	106.78
Water Rates	34.35	37.79	41.56	45.72	50.29	55.32	60.30	65.73	71.64
Comb. Rate	$71.09	82.64	94.73	107.39	120.88	135.21	148.85	163.24	178.42
Increase/Mo.	**--**	**$11.55**	**23.64**	**36.30**	**49.79**	**64.12**	**77.76**	**92.15**	**107.33**
Increase/Yr.	**--**	**$139**	**284**	**436**	**597**	**769**	**933**	**1106**	**1288**

These combined rates will continue to rise rapidly in years 9 thru 15 as scheduled water and sewer rate hikes for those years kick in, as noted above.

City Council Must Consider Impact of Future Hikes in Other Utility Services.

It is important for the public to understand that the projected monthly and annual rate hike amounts and percentages only include hikes in city water and sewer rates. The rate hikes do not include likely future hikes in city solid waste and storm drainage rates (currently $48.62/mo. combined per typical household).

City staff has already announced a plan to seek voter approval in the near future of a major hike in the storm drainage rate. Since that rate can only be changed with voter approval, the rate has remain unchanged since 1998. We can reasonably anticipate that the city will seek a significant hike in the storm drainage rate due to the infrequency of hikes, the long span of time (14 years) since the last rate hike and the challenge of securing voter approval for such hikes.

While the city is taking a one-year hiatus in hikes to solid waste rates, it has historically raised solid waste rates at a much higher pace than the rate of inflation. An amendment last year to the city's contract with BLT Enterprises, the then operator of the city's garbage transfer station, is expected to contribute to higher solid waste rates starting two years hence. Solid waste rates in Sacramento are already the highest in the region (saving only Davis), while the city provides a lower level of solid waste disposal services than most local cities.

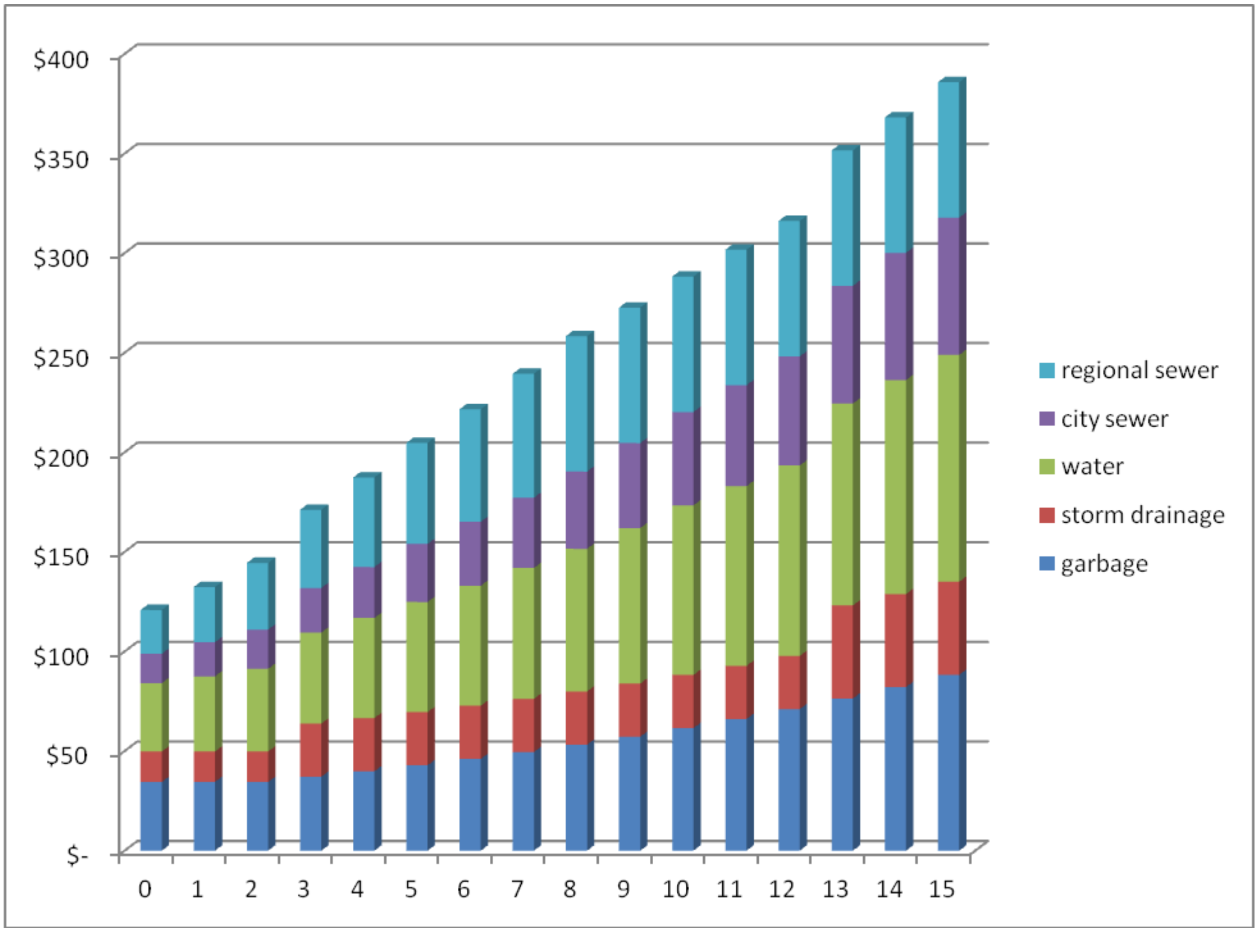
The city council took action this week to reorganize its delivery of solid waste services, including a call for elimination of "claw" pick-up of loose-in-the-street garden refuse. If voters in November approve an initiative to repeal a charter provision which protects claw service, city staff has said that they will not seek an increase in solid waste rates for three years.

Eye on Sacramento's 15-Year Projection of Total Monthly City Utilities Rates

Eye on Sacramento has endeavored to do what the DOU has failed to do (at least publicly): compile a 15-year projection of total monthly city utilities bills for the typical household that includes: (1) the DOU's 15-year schedule of projected water and sewer rate hikes; (2) Regional Sanitation's tripling of sewer rates over the next eight years; and (3) projections of future increases in storm drainage and solid waste rates.

The color-coded bar chart set forth on the following page depicts the astronomical levels total monthly city utilities bills are expected to reach over the course of the next 15 years under city staff's rate proposal, broken down by its constituent components: city sewer, Regional Sanitation sewer, city water, storm drainage and solid waste. Only by compiling such information can the public have a fair and accurate sense of the future impact of the proposed rate hikes on Sacramento homeowners, businesses, jobs and economic growth.

Eye on Sacramento's Projection of Total Monthly City Utilities Bills Over the Next 15 Years



Assumptions:

Garbage/Solid Waste: 8%/Yr. hike in Yrs. 3 thru 15; based on prior rate hike history

Storm Drainage: 75% hike in Yr. 3; 75% hike in Year 13; timing based on DOU senior staff plans; amount based on 14-year lag since last rate hike; subsequent hike projected 11 years later

Water: Yrs. 1 thru 5 - 10%; Yrs. 6 thru 10 - 9%; Yrs. 11 thru 15 - 6%; based on DOU's 15-yr. schedule of projected future rate hikes

City Sewer: Yr 1 - 16% ; Yr. 2 - 15%; Yrs. 3 thru 5 - 14%/yr., Yrs. 6 thru 10 - 10%/yr.; Yr. 11 thru 15 - 8%/yr.; based on DOU's 15-yr. schedule of projected hikes

Regional Sanitation Sewer: $5.75/mo. flat hike in Yrs. 1 thru 8; 8%/Yr. hikes in Yrs. 9 thru 15, per policy direction by Regional Sanitation board

THE NEGATIVE IMPACTS OF MULTI-YEAR, DOUBLE DIGIT RATE HIKES

Impact on Individual Homeowners

Sacramento remains in the trough of the deepest recession since the Great Depression. The cold hard facts are laid out in the latest unemployment report which showed that the national unemployment rate has fallen to 8.3% and California's unemployment rate fell to 10.9%, down 1.2% from a year earlier. Meanwhile, Sacramento's unemployment rate rose .4% to 11.3%, one of the highest unemployment rates in the county.

The Sacramento Business Journal reported on January 31, 2012 that Sacramento home values dropped a further 8.1% through the through the 3rd quarter of last year over the prior year. The report also included a forecast from Fiserv, Inc. that Sacramento home values are expected to drop another 2.6% by the end of the 3rd quarter of this year. Our home values have been falling for five straight years and there is no end in sight.

Delinquent city utility accounts are at record levels. Staff's recommendation is to launch a $2.4 billion infrastructure repair program financed with $1.8 billion of new debt and $600 million of direct ratepayer investment. EOS estimates that the city's proposed borrowing via 30-year bond issuances would cost Sacramento ratepayers $1.5 billion in interest, requiring total payments of principal and interest of $3.3 billion by the city's 120,000 utility customers, which equates to $27,500 per homeowner for debt repayment. The total cost per household rises to $32,500 once the direct investments by ratepayers are included.

Payment of monthly utility bills are not voluntary. If a homeowner fails to pay on time, the city levies a late payment penalty of an astronomical 120% per annum. If a homeowner gets behind on his utility bill for several months, the accrued monthly charges and huge late fees are attached to his or her property tax bill and become an immediate lien. If a homeowner then fails to pay his or her entire property tax bill on time, another 20% late fee is added on to the tab. A homeowner who does not bring his or her property tax bill current within five years loses their home to foreclosure.

Real estate research firm Zillow reported at the end of 2011 that 51% of all Sacramento homeowners are underwater on their mortgagers, owing more than their homes are worth. The equity of local homeowners in their own homes has either disappeared entirely (half of all homes) or been hammered by massive drops in value.

Slapping what is effectively a new $32,500 lien on the home of every Sacramento home to finance the DOU's plans will put thousands more Sacramento residents underwater on their homes. For the large number of Sacramento homeowners who are just barely making their mortgage payments and putting food on their families' tables, the additional burden of having to pay substantially higher city water, city sewer and Regional Sanitation sewer treatment rates will force many of them from their homes.

The higher utility bills will hit them when they are already at the most vulnerable points in their lifetimes.

Utility charges are the most regressive form of taxation in the land, disproportionately burdening middle class, working class and poorer homeowners and those on modest fixed income. **The city council could not pick a worst time to impose a major new financial burden on Sacramento's most vulnerable citizens and communities.**

With Sacramento's economy in the cellar, job opportunities scarce, home values continuing to fall and mortgages falling deeper underwater, the rational response of an unknown number of Sacramentans to major hikes in their city utilities bills will be to abandon Sacramento and seek better opportunities (and often lower living costs) almost anywhere else in the country for both themselves and their families. People will not accept privation forever when other options loom. If we begin to lose population to out migration, as has occurred in Detroit and other cities with deteriorating economic conditions, the process of urban decline will be very hard to reverse.

Life-Line Subsidies

The city council has been discussing the possibility of adopting a life-line subsidy for poorer Sacramento households. Since ratepayer funds cannot legally be used under Proposition 218 to finance subsidies, the city would need to return to the DOU some portion of the 11% utility tax it collects on DOU revenues. While the goal of assisting the poorest of homeowners is laudable, the implementation creates a number of problems and serious inequities.

In particular, a Life-Line subsidy program might provide limited relief to lower income homeowners, it would provide no help whatsoever to even lower income tenants of apartments and rental homes. As a rule (and almost by definition), low income homeowners are better off than low income tenants. Where is the equity in the city subsiding better off homeowners but not providing similar (or greater subsidies) to worse off tenants? Tenants, most of whom do not pay city utility bills directly, pay for them indirectly through the payment of rent. A major increase in water and sewer rates will lead to across the board rent increases for Sacramento tenants, placing them in greater danger of homelessness and raising the cost of housing in the community.

The better policy choice for the city council would be to reinvest rate hike-driven increases in the 11% utility tax back into the DOU's infrastructure, reducing debt levels, reducing interests costs and reducing future rate increases to the benefit all Sacramento residents.

Impacts on Commercial Properties

The value of commercial properties (apartment houses, commercial shopping centers, office building and industrial buildings) are dependent on the net positive cash flow that a given property generates. The recession and the bursting of the real estate bubble has led to a foreclosure crisis in commercial properties that is just as severe, but far less written about, as the foreclosure crisis facing single family homes. Equity values have plummeted and many owners face maturing short-term loans that they are unable to refinancing due to the decline in market values.

If the city imposes major rate hikes before the commercial real estate market has had an opportunity to recover from the recession, the rapid escalation of city utility costs (which represent about of 8% of gross income for owners of residential income property) will swamp current marginal (or, in many cases, nonexistent) net operating cash flow and further decimate equity values, driving up foreclosures and sucking pools of available investment capital out of the local economy.

Impact on the Housing Stock

The rate hikes will have a profound effect on the cash flow available to owners of rental properties to fund maintenance expenses, the key to maintenance of a quality housing stock. Since most commercial properties are heavily leveraged (particularly with the crash of market values), the cash flow available to property owners to fund discretionary operating expenses of rental properties, like maintenance costs, are very tightly constrained. A major hike in utility rates under current market conditions will force owners and managers to make severe cuts in property maintenance, the largest discretionary expense of most properties, in order hold on to their properties. Cuts in maintenance expenditures will lead to a steady decline in the condition of Sacramento's rental housing stock

Impact on New Commercial Construction

By raising prospective operating costs significantly, major rate hikes will have the inevitable effect of reducing the number of future commercial development projects that will qualify for financing or be built. Contemplated projects that may now "pencil" with existing utility rates are likely not to "pencil" once the additional burden of substantially higher utilities costs are factored in. As a result, major rate hikes will impose a major damper on recovery of the local construction industry and the creation of future jobs. In reviewing the proposed hikes with apartment developers, it appears likely that the size and duration of the rate hikes will likely scuttle or significantly delay the construction of most apartment housing projects now on the drawing board.

Impact on Property Tax Collections - The Echo Effect

Given the significant impact that major utility rate hikes will have on the net operating cash flow and, thus, market values of Sacramento commercial properties, it is likely, according to EOS sources, that approval of such rate hikes will trigger a cascade of property tax assessment appeal filings with the Sacramento county assessor's office by commercial property owners seeking reductions in assessed values to reflect the diminished market values of their properties. Such appeals are likely to be successful and result in a further drop in property tax revenues collected by city government, county government, local school districts and special districts. The property tax "echo effect" of major hikes in utilities rates may be significant.

It is also likely to have some impact on property tax collections on commercial properties located in redevelopment project areas. Property tax payments from the owners of such properties are the primary source of repayment of approximately $250 million of outstanding redevelopment debt that the city recently inherited as part of the dissolution of the city's redevelopment agency. We understand that there are already concerns with the adequacy of existing property tax revenues from such properties to service redevelopment debt. A future drop in property tax collections from commercial properties in redevelopment project areas caused by major utilities rate hikes may exacerbate those concerns.

Impacts on Local School Districts

While local school districts may be impacted from the property tax "echo effect" of major utility rate hikes, they face a more direct threat from such rate hikes. City school districts, including Sacramento City Unified (SCUSD), Natomas and Twin Rivers, are among the largest customers of the DOU.

SCUSD, for instance, had an annual city water and sewer bill of $1.7 million in 2010, according to data provided to EOS by SCUSD financial staff. The rate hikes projected by DOU staff, coupled with the increases in Regional Sanitations rates, will double SCUSD city utility bill in six years to $3.4 million annually and will increase to $4.3 million after eight years, an increase of $2.6 million that the district cannot afford to pay given the dire straights of school funding in California. SCUSD recently approved the closure of Freeport Elementary School, a grueling decision that saved SCUSD only $500,000 annually. By 2020, SCUSD will need to close five elementary schools just to pay its higher city utilities bill.

Impact of Rate Hikes on Sacramento's Economic Growth

DOU has not presented a balanced assessment of the impact the rate hikes will likely have on employment, job creation, business survival rates, personal and business bankruptcy rates, residential and commercial property foreclosures, business recruitment and retention and economic growth in Sacramento.

DOU retained CSUS Business School Dean Sanjay Varshney to conduct a study (at a ratepayer cost of $32,000) of the economic impacts of the project. So far, staff and Dr. Varshney have released only those aspects of the study that review the purported *benefits* of the projects, but has pointedly failed to release aspects of the study that cover the *negative impact* of the rates on the Sacramento economy. The DOU has, at various times, promised that Dr. Varshney's analysis of the negative impacts of the rate hikes is "coming." During a DOU presentation at a meeting to the Utilities Rate Advisory Commission (URAC) in January, staff advised EOS that Dr. Varshney's report - including his analysis of the negative impact of rate hikes - would be completed "by the end of February." It has yet to be received.

In Dr. Varshney's "interim" report to the URAC on January 26, 2012 he extolled the economic benefits of the infrastructure restoration project on the local economy. He also presented a PowerPoint slide that indicated that water and sewer charges represent only a small percentage of the gross revenue for four types of Sacramento businesses, ranging from 1/2% to 2% of gross revenues. However, Dr. Varshney notably failed to examine the impact of water and sewer rates on commercial, industrial and residential income property owners, a vital component of the local economy. Had he done so, he would have discovered that *water and sewer rates typically constitute 8% or more of the gross revenues of such business property owners*, an impact five to 20 times greater than the impact on those "selected" businesses that he did examine.

Dr. Varshney, incidentally, is the economist who co-authored, with CSUS professor Dennis Tootelian, the widely criticized study of the projected negative economic impacts of AB 32's climate control mandates on California residents and business. The CSUS professors prepared their study on behalf of major campaign supporters of an ultimately unsuccessful 2010 ballot initiative that sought to overturn AB 32 mandates. The Varshney study concluded that implementation of AB 32 would cost the average California household $3,857 per year. Stanford University professor James L. Sweeney issued a report on February 16, 2010 roundly criticizing the Varshney/Tootelian Report and citing three other recent academic studies that challenged the methodology and findings of the Varshney/Tootelian study. (See "Review of Varshney/Tootelian Report 'Cost of AB 32 on California Small Businesses - Summary Report of Findings,'" author: Stanford Professor James L. Sweeney; a copy of Professor Sweeney's report is on file at Eye on Sacramento's offices.)

EOS suggests that the city look elsewhere for credible, scholarly evaluation of the economic impact of the proposed rate hikes and the proposed infrastructure repair project.

WHAT ARE THE REAL RISKS OF A SIGNIFICANT UTILITIES INFRASTRUCTURE FAILURE?

Now that we have surveyed the negative impacts of major rate hikes, we must now answer the question: What are the real risks of a failure of utility infrastructure in the next several years imposing a significant threat to public health or a serious disruption of life in Sacramento.

The primary concern with water and sewer infrastructure is: (1) maintaining a constant, uninterrupted supply of high quality drinking water; and (2) avoiding major sewage spills that could be a real threat to public health.

Risks and Consequences of Failures of Water Infrastructure

Sacramento's drinking water is drawn principally from the American and Sacramento Rivers and is treated at two water treatment plants, one located on each river. The older of the two facilities, located on the Sacramento River, was constructed in the 1920's. The American River treatment is of more recent vintage. The city can never, ever be without a functioning water treatment plant. The existence of two operating plants, either one of which can handle the water needs of the city, does significantly reduce the risk of a catastrophic inability to access, treat and distribute quality drinking water.

Despite the ability of our two treatment plant to serve as a "back up" to the other, the criticality of maintaining an uninterrupted supply of drinking water requires that, if one or both of the plants require major repairs or rehabilitation, as engineering reports indicate, such work should be given high priority and early attention. Additionally, a full rehab of a water plant is an expensive proposition (estimated cost: $150 million) and 100% of the construction costs for the plant rehab must be in place before work is begun. As a consequence, the rehab of our water plants should be financed with the issuance of bonds as it would be a practical impossibility to finance the plant via a sinking fund out of current revenues without an unacceptable long delay in the commencement of this high priority project.

Our water treatment plants are the most vulnerable components of our water distribution system. The plan for early financing and rehabilitation of the plants will provide maximum protection of these vital components and minimize the risk of a water infrastructure failure causing a serious disruption of life in Sacramento.

The remainder of the water elements in the DOU's infrastructure repair program do no pose anything close to the risk of disruption that a water plant failure would cause (with the possible exception of work on water wells that may be necessary to maintain water flows during the rehabilitation of the water treatment plants). While breaks in local pipes and mains create major inconvenience and localized temporary flooding, the risk of damage is highly localized and limited

Risk and Consequence of Failures of Sewer Infrastructure

Historically, the greatest threat to public health from a failure of sewer infrastructure in the city has been from a sudden intense storm that overwhelms the city's combined sewer and storm drainage system in the central part of the city and results in wide scale sewage spills. The last major spill occurred almost a decade ago and arose from a highly unusual and unanticipated 1,000-year storm that overwhelmed the capacity of the combined sewer/storm drainage system resulting in major spills in Land Park. After the fact, it was determined that the spill was primarily the result of operator error. A valve at the DOU's pumping facility on Riverside Boulevard was not opened as called for in DOU operating protocols.

Since then, the DOU has wisely invested significant resources to install a number of very large, underground stand-by overflow reservoirs that stand ready to accept very large volumes of water from extraordinary storm surges like the storm that led to spillages a decade ago in Land Park, relieving the pressure on the combined system.

At a meeting of the Sacramento Business Coalition last fall, DOU interim director Dave Brent was asked whether the installation of the overflow vessels had largely eliminated the risk of large scale sewage spills in Sacramento of the type that pose a significant risk to public health. Brent confirmed that the risk of major spills in the city that could pose significant risks to public health had been largely eliminated by the presence of the overflow vessels. The remaining risk to the sewer system, he said, was from pipe failures leading to smaller scale, highly localized spills in a particular street or cluster of homes that imposed tremendous inconvenience to those affected, but pose no real risk to broad public health.

Assessment of Risk and Timing of Repairs

Apart from the need for early action to rehabilitate the city's water treatment plants, the remaining risk in both the water and sewer infrastructure systems pose no serious threat to public health or threat of major disruption of life in Sacramento. The primary risk is of localized spills and breaks. Consequently, the launch of a major infrastructure repair program can be deferred until the Sacramento economy recovers without significant public risk. Similarly, the reductions in systemic risk from early rehab of the water plants and the installation of underground, overflow reservoirs in the central center gives the city the breathing room to finance needed infrastructure repairs on a less risky and far less costly "pay-as-you-go" system for all aspects of the repair program other than water plant rehabilitation, which is a project that warrants the use of debt financing.

IS DEBT FINANCING THE BEST OR WORST WAY TO FINANCE THE BULK OF THE COSTS?

City Should Minimize the Use of Bond Debt to Reduce Ratepayer Costs and Risk

Financing the infrastructure repair program principally with bond issuances, as proposed by staff, dramatically increases total project costs (from an estimated $2.4 billion to an estimated $3.9 billion) and, consequently, pushes water and sewer rates much higher than they would otherwise be if the project was funded primarily on a "pay as you go" basis. To reduce the economic burden on ratepayers, the city should only incur debt to pay for those projects that it cannot fund out of current rates and charges and must be funded in the near term.

City Treasurer: "City is Facing a Debt Nightmare" and Advises Against Borrowing to Fund Routine Maintenance

City Treasurer Russ Fehr consistently cautions the city council to only employ debt when absolutely necessary to fund major projects. At a meeting last week with the Sacramento Business Coalition on the issue of city utility rates and proposed infrastructure repairs, Fehr informed business leaders that "the city is facing a debt nightmare" and pointedly warned that "borrowing for routine maintenance is insane."

Only the rehabilitation of the water treatment plants meets Fehr's prudent criteria for debt financing, as it will require full funding to be available all at once. Virtually all other components of the plan (i.e. water meter program, expenditure mandates and pipe and main replacements) are expenses that will be incurred over time and should be funded out of current rates and charges to the greatest extent possible. There is no public safety or other sound public policy justification for using debt solely to accelerate the pace of completion of these other project components.

Since the neglected state of city sewer and water pipes do not constitute a serious threat to public health, funding pipe replacements over time out of then current rates and charges is a smarter choice than accelerating the work through very expensive debt financing.

The Potential Capriciousness of Bond Coverage Ratios

The city is intending to use revenue bonds to finance 75% of the total cost of the infrastructure repair program. The bond covenants will include requirements for the creation and maintenance of substantial reserves. In addition, the bond covenants will include a requirement that the city always maintain a minimum "coverage ratio" of revenue-to-debt payments, so as to give bondholders comfort that the DOU has a cushion of revenue to make bond payments. Goldman Sachs, the city's bond underwriter, anticipates that the revenue bonds will impose a coverage ratio of 1.3:1, meaning that the city must always keep water and sewer revenues at least 130% above the amount of required bond payments. Anything below that level will constitute an event of default.

A future major economic downturn would drive down utility revenues and could push the city out of compliance with the coverage ratio. In such circumstances, the city would be contractually obligated to rapidly ratchet up utility rates in order to come back into compliance with the ratio. Of course, a major increase in rates during a major downturn may worsen local economic conditions and actually depress DOU revenues further, triggering even higher rate hikes. Such a bleak scenario could lead to a dangerous spiral of plunging revenues and exploding rates.

These are not merely theoretical risks. The two largest municipal bankruptcies in the country this year (Harrisburg, Pennsylvania and Jefferson County (Birmingham), Alabama) each resulted from excessive issuance of bond debt used to fund expensive municipal utilities projects.

To repeat: the city would be well advised to avoid debt financing of its projects to the greatest extent possible, limiting the use of debt to only those essential, pressing projects that are so expensive that they simply cannot be funded out of current revenues.

The First Tranche of Bond Financing

City staff seeks to borrow $300 million in the first tranche of borrowing and use the funds to rehab the city's water treatment plants ($150 million), accelerate installation of water meters and start ramping up its plan to replace water and sewer pipes. As previously noted, EOS believes that debt financing of the rehab of the water treatment plants is an appropriate use of debt financings. We do not believe that its a smart or prudent use of debt to borrow money to accelerate water meter installation or to finance ongoing pipe replacement.

The Fallacy of Accelerating the Installation of Water Meters

Sacramento faces a 2025 California statutory deadline to complete the installation of water meters at all residential and commercial properties. The days of unmetered Sacramento water, for better or worse, is coming to an end. There is, however, absolutely no benefit to ratepayers of borrowing money and running up high interest costs in order to install water meters years earlier than the 2025 statutory deadline, as the DOU is currently proposing. Accelerating meter installation will needlessly force ratepayers to pay higher water rates to cover interest costs.

Such an approach also ignores a basic reality of water meters. They wear out and must be replaced - at ratepayer expense. By accelerating the installation of water meters, the DOU would also accelerate the day when newly installed meters would have to be replaced (they have a useful life of just 10 years, according to DOU director Dave Brent). By delaying water meter installation until closer to the 2025 deadline, ratepayers will be able to *permanently defer* the cost of installing replacement meters when the newly installed meters wear out, a huge cost savings to city ratepayers.

THE DOU'S TROUBLING PUBLIC RELATIONS CAMPAIGN

As of the end of December, 2011, the city had spend a total of $250,000 of ratepayer funds on a public relations campaign to sell the proposed rate hikes and infrastructure repair program to the public and the city council. The money was spent on public relations firms, push polling of residents, a still incomplete and patently biased economic impact study of the rate hikes and repair program.

City ratepayers even paid $63,000 to former Sacramento city manager Bill Edgar for "consulting services." Edgar left his position as interim city manager just seven months ago. It marks another turn by Edgar in his revolving door roles as city manager, city consultant and city lobbyist. It is unclear what services Edgar performed that benefitted city ratepayers. His trusting relationships with several city council members certainly had value to DOU director Dave Brent since Brent's goal has been to persuade the city council to approve major rate hikes and a massive borrowing program. Has Edgar been serving as a de facto paid lobbyist for the DOU under the guise of a "consulting agreement?" In the cozy world of city government, such moves happen too frequently with far too little scrutiny.

If the DOU's expensive public relations campaign had been coupled with a commitment to holding an open and transparent public discussion of rate hikes and infrastructure repair, I would feel less troubled by the expenditure of ratepayer funds for such services. But from the very beginning of the DOU PR offensive, the DOU and its PR advisors kept a very tight rein on the disclosure of information. For several months we asked the DOU for a copy of their 15-year rate projections. First, we were told that they did not exist. Then, we were told that they were merely "drafts." Finally, after months of pressing by several parties, the DOU relented and released its long-term rate projections.

Why did the DOU stonewall EOS and refuse to divulge its rate projections? Because the DOU and its PR firm was pushing a false narrative about the scope of the proposed rate increases. Their strategy was to mischaracterize the rate hikes as just a single year rate hike amounting to only a $6 per month increase in rates, focusing only on the first year hikes and ignoring rate hikes in the two subsequent years.

Next, the PR team publicly touted a detailed 30-year plan to fix city infrastructure involving substantial borrowings. Since major borrowings require repayment with interest, the DOU and its financial advisors had obviously engaged in extensive financial planning. We knew that the DOU were using internal projections of future rate hikes. But the DOU refused to release the projections for months because they knew their public release would undermine the DOU's carefully crafted fiction that their plan only involved a one-year rate hike.

The DOU even misled local media whose initial reporting on the issue repeated the canard that the proposal only involved a single year's rate increase. Eventually, however, the charade was abandoned and the DOU started to publicly acknowledge that their plan sought council approval for three year's of rate hikes. According to city hall veterans, this marks the first time that the DOU has ever sought council approval for three year's of rate hikes at one time.

A key component of the DOU's infrastructure repair plan was its financial plan. How would it all be paid for? EOS and other groups started asking the DOU for a copy of its financial plan six months ago. The Sacramento Business Coalition asked for the plan in almost monthly meetings with DOU management, but no such plan was ever provided. Finally, in a recent meeting with city manager John Shirey, Sacramento business leaders again asked for the DOU's financial plan. The DOU's financial director, Jamille Moens, finally agreed to provide a copy of the financial plan - but only three years of the plan, not the full 15-year plan that EOS and others had sought for almost one-half of a year.

Six months late and just eight days before the critical city council meeting at which the rate hike issue will be decided, the truncated financial plan finally arrived. But not a single member of the public and not a single member of the media has had a chance to even glance at the DOU's full financial plan for spending $2.4 billion to fix utilities infrastructure, running up $1.8 billion of debt and incurring $1.5 billion of interest.

So, in a supposedly open and democratic society, our city government meets behind doors with its bond underwriter, Goldman Sachs, to plot out plans for borrowing and spending billions of ratepayer money and does not permit the public even a peek behind the wizard's curtain.

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