

CITY OF SEBASTOPOL CITY COUNCIL
AGENDA ITEM REPORT FOR MEETING OF: May 6, 2025

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To: Honorable Mayor and City Councilmembers
From: Mark Rincon-Ibarra – Director of Public Works/City Engineer
Ana Kwong – Administrative Services Director
Subject: FY24-25 Quarter 3 Financial Update for Enterprise Funds

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RECOMMENDATION:
Staff recommends the Sebastopol City Council receive year-to-date financial information for the enterprise funds.

EXECUTIVE SUMMARY:
Based on the best available information as of March 31, 2025, the city's water fund has billed 74% of budgeted revenue for the full fiscal year. Expenses are at 68% of full fiscal year. Wastewater has billed 76% of budgeted revenue of full year. Expenses are 67% of full year. These results are in line with what we would expect.

BACKGROUND:
The attachments summarize the financial results for the Water and Wastewater enterprise funds as of this writing.

The Enterprise funds have faced significant underfunding until the rate increases took effect on July 1, 2024. These funds cover all activities necessary to maintain these services, including operations, maintenance, billing and collections, administration, financing, and related debt service. The primary sources of revenue are charges to customers for water consumption, wastewater collection, and fees associated with providing new water and wastewater services. For revenues, the "Year to Date Actual" columns reflect billing of usage through March.

On the expenditure side, both water and sewer are trending at around 68% mark for the third quarter, which is below the 75% if all the expenses are linear. For expenses the "Year to Date Actual" columns reflects expenses through March.

ANALYSIS:
Past revenue from rates have been insufficient to cover operating costs, necessary significant capital investments, and maintain a sufficient level of reserves. The budget surplus reflected in this report is part of the strategy to rebuild both Enterprise Funds from under investment in the past. As discussed in the rate study, over the next three years, we will need additional revenue of over \$9 million, with an approximate breakdown to cover operating deficits (\$7.7M), fund essential capital projects (\$0.7M), and build reserves to a sufficient level (\$0.8M). Furthermore, the Wastewater Fund needs to reimburse the General Fund for the money that was borrowed, which was in excess of one million dollars.

The rate increase goal was to bring fiscal health back to the Enterprise Funds, and to reestablish a prudent fiscal management of our utilities. These increases were the minimum required to balance the operating budget, to begin addressing the backlog of infrastructure renewal and replacement costs, and to replenish reserves.

The operation budget is tracking below target for this time of year. This is attributed to staff changes within the Public Works Department which have slowed operating expenditure. As the new staff determines the Department needs, the budget will be reporting closer to anticipated expenditure levels.

Water:

The quarterly report for the water fund covers the billing period from July 2024 to March 2025. As requested by the City Council during the last second quarterly update, staff has separated out the water tower billing for transparency purposes. This separation allows for a clearer understanding of the collection associated with the water tower.

As discussed in the last quarterly update, water usage tends to be higher in the first and second quarters due to the summer months, which typically see increased water consumption. This trend is driven by activities such as irrigation, outdoor recreation, and higher household water usage during warmer weather. As we transition into the winter months, we expect water usage declining due to cooler temperatures and reduced outdoor activities. However, staff anticipated that water revenue will eventually align with the projected figures as the year progresses.

Operating expenditures, which include salaries and wages, benefits, contracted services, debt service payments, cost allocation plan, and transfers out, are tracking at 68%, which is below target for this time of year. This indicates that the fund is managing its expenses effectively and expected to be on course to meet its financial obligations.

Wastewater:

The quarterly report for the wastewater fund covers the billing period from July 2024 to March 2025. This fund's revenue is at 76%, while expenditures are at 67%, which is below the 75% mark mainly due to timing of the Subregional contract with Santa Rosa for use of their water treatment plant. The Subregional invoicing and payment for the second quarter is for only 8 months and not 9 months and at the end of the fiscal year, the full contractual cost will be expended.

The recent rate increases, effective from July 1, 2024, are expected to stabilize revenue streams and ensure that the sewer fund becomes financially healthy. These rate adjustments were implemented to address the historical underfunding of both water and wastewater enterprise funds, and they play a crucial role in maintaining the sustainability of these services.

PUBLIC COMMENT:

As of the writing of this staff report, the City has not received any public comment on this item. However, if staff receives public comment from interested parties following the publication and distribution of this staff report, such comments will be provided to the City Council as supplemental materials before or at the meeting.

COMMUNITY OUTREACH:

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to the scheduled meeting date.

FISCAL IMPACT:

There is no fiscal impact in receiving this informational financial update.

RESTATED RECOMMENDATION:

That the City Council receive year-to-date financial information.

OPTIONS:

There are no options to consider.

ATTACHMENTS:

Quarterly Financial Reports
Power Point Presentation

APPROVALS:

Department Head Approval: Approval Date: 4/5/25

CEQA Determination (Planning): Approval Date: N/A

The proposed action is / is not exempt from the requirements of the California Environmental Quality Act (CEQA)

Administrative Services/Financial Approval: Approval Date: 4/5/25

Costs authorized in City Approved Budget: Yes No N/A

Account Code (f applicable) _____

City Attorney Approval: Approval Date: N/A

City Manager Approval: Approval Date: 4/10/25

DRAFT



WATER OPERATING FUND FY24-25 QUARTER 3 REPORTING

Description	2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Preliminary Year-end Projection	Y-T-D Actual 3/31/25	Footnotes	% of Adjusted Budget
OPERATING REVENUE							
Usage Charges - Residential	1,343,048	3,189,700	1,690,541	1,690,500	1,311,446	1	77.6%
Usage Charges - Commerical	895,366	-0	1,446,659	1,446,700	1,060,010	1	73.3%
Usage Charges - Water Tower	-0	-0	52,500	52,000	33,964	1	64.7%
Interest Income	82,780	75,000	75,000	75,000	46,642		62.2%
Construction Hydrant	500	2,160	2,160	-0	-0		0.0%
Backflow Inspections	-0	650	650	-0	-0		0.0%
New Service Fee	8,700	36,600	36,600	10,000	7,800		21.3%
Water Meter Sales	190	8,600	8,600	-0	-0		0.0%
Penalties	21,591	15,000	15,000	20,000	18,329		122.2%
Other Charges	279	2,145	2,145	-0	-0		0.0%
Insurance Claims	515	-0	-0	-0	-0		0.0%
Miscellaneous Income	155,392	43,000	43,000	44,000	874		2.0%
TOTAL REVENUE	2,508,362	3,372,855	3,372,855	3,338,200	2,479,066		73.5%
OPERATING EXPENDITURE							
Salaries & Wages	319,666	357,977	374,777	354,870	268,227		71.6%
Benefits	158,712	223,277	223,966	200,870	158,366		70.7%
Contracted Services	338,990	255,820	255,820	261,320	101,997		39.9%
Services & Supplies	161,691	225,550	225,550	228,050	140,966		62.5%
Conference & Training Expense	2,865	5,000	5,000	5,000	4,197		83.9%
Utilities	203,566	254,600	254,600	312,000	192,459		75.6%
Allocated Insurance	90,730	79,530	79,530	79,530	59,646		75.0%
Capital Outlay	-	27,750	27,750	27,750	-		0.0%
Debt Service Payments	380,175	318,656	318,656	318,656	277,508		87.1%
Cost Allocation Plan	1,261,494	852,863	852,863	852,863	639,647		75.0%
Transfers Out	940,341	120,000	120,000	21,530	25,322		21.1%
TOTAL EXPENDITURES	3,858,230	2,721,023	2,738,512	2,662,439	1,868,335		68.2%
Net Surplus/(Deficit)	(1,349,868)	651,832	634,343	675,761	610,730		
^{1.} The year-to-date amount reflects data billing from July-March billing, as the City operates on a bi-monthly billing cycle. Consequently, the billing for April & May will occur in June.							



**WASTEWATER OPERATING FUND
FY24-25 QUARTER 3 REPORTING**

Description	2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Preliminary Year-end Projection	Y-T-D Actual 3/31/25	Footnotes	% of Adjusted Budget
OPERATING REVENUE							
Service Charge - Residential	2,813,939	4,647,523	2,277,323	2,277,286	1,782,533	1	78.3%
Service Charge - Commercial	-0	-0	2,370,200	2,370,237	1,729,189	1	73.0%
Interest Income	20,194	-0	-0	20,000	11,880		0.0%
Penalties	15,153	2,500	2,500	20,000	16,587		663.5%
Insurance Claims	-0	8,729	8,729	-0	-0		0.0%
Miscellaneous Income	32,552	1,000	1,000	-0	-0		0.0%
Transfers In	-0	-0	-0	-0	-0		0.0%
TOTAL REVENUE	2,881,838	4,659,752	4,659,752	4,687,523	3,540,189		76.0%
OPERATING EXPENDITURE							
Salaries & Wages	282,963	306,893	322,383	293,650	227,210		70.5%
Benefits	139,103	194,998	195,644	175,140	136,151		69.6%
Contracted Services	84,665	105,550	105,550	123,925	18,658		17.7%
Subregional Cost	1,952,842	2,118,435	2,118,435	2,118,435	1,412,291		66.7%
Services & Supplies	60,825	118,200	118,200	106,700	27,737		23.5%
Conference & Training Expense	8,458	8,000	8,000	8,000	2,458		30.7%
Utilities	63,567	81,352	81,352	59,400	50,500		62.1%
Allocated Insurance	68,625	55,735	55,735	55,735	41,802		75.0%
Debt Service Payments	181,237	178,656	178,656	178,656	150,645		84.3%
Cost Allocation Plan	1,041,462	908,934	908,934	908,934	681,701		75.0%
Transfers Out	800,532	32,000	32,000	32,606	32,402		101.3%
TOTAL EXPENDITURES	4,684,278	4,108,753	4,124,889	4,061,181	2,781,554		67.4%
Net Surplus/(Deficit)	(1,802,440)	550,999	534,863	626,342	758,635		
<p>¹. The year-to-date amount reflects data billing from July-March billing, as the City operates on a bi-monthly billing cycle. Consequently, the billing for April & May will occur in June.</p>							

FY 2024-25
3RD QUARTER FINANCIAL
UPDATE
ENTERPRISE FUND

May 6, 2025

FY 2024/25 Q3 Water Fund

	2024-25 Adjusted Budget	Y-T-D Actual 3/31/25	\$ Available from Budget	Actual As % of Budget
Revenues	\$ 3,372,855	\$ 2,479,066	\$ 893,789	73.5%
Expenditures	\$ 2,738,512	\$ 1,868,336	\$ 870,177	68.2%
Net Results	\$ 634,343	\$ 610,730		

- ✓ The city's water fund has billed 74% of budgeted revenue.
- ✓ Operating expenditures are currently at 68%, which is below the expected target for this time of year due to the non-linear nature of expenses.

FY 2024/25 Q3 Wastewater Fund

	2024-25 Adjusted Budget	Y-T-D Actual 3/31/25	\$ Available from Budget	Actual As % of Budget
Revenues	\$ 4,659,752	\$ 3,540,189	\$ 1,119,563	76.0%
Expenditures	\$ 4,124,889	\$ 2,781,554	\$ 1,343,335	67.4%
Net Results	\$ 534,863	\$ 758,635		

- ✓ The city's sewer fund has billed 76% of budgeted revenue.
- ✓ Operating expenditures are at 67%, which is below target for this time of year.

Reminder - Future Billing Realignment

Statement Date	Service Period (Reads)		Period Ending
April 2025	Feb 2025 -Mar 2025		3/31/2025
June 2025	April 2025 -May 2025		5/31/2025
July 2025	June 2025		6/30/2025
Sept 2025	July 2025 -Aug 2025	*	8/31/2025
Nov 2025	Sept 2025 -Oct 2025		10/31/2025
Jan 2026	Nov 2025 -Dec 2025		12/31/2025
Mar 2026	Jan 2026 -Feb 2026		2/28/2026
May 2026	Mar 2026 -April 2026		4/30/2026
July 2026	May 2026 -June 2026		6/30/2026
* The new rates will take effect on July 1st			



COUNCIL QUESTIONS/DISCUSSIONS