



CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: July 21, 2026

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To: Honorable Mayor and City Councilmembers

From: Alex Mog, City Attorney
Mary Gourley, City Manager
Ana Kwong, Administrative Services Director

Responsible Department: City Administration/Administrative Services

Subject: Wastewater Loan Forgiveness

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RECOMMENDATION:

Staff recommends that the City Council adopt a resolution forgiving repayment of the outstanding \$1,100,000 loan from the General Fund to the Wastewater Enterprise Fund.

PROCESS OF AGENDA ITEM:

- a. Presentation of the agenda item by City Attorney/Administrative Services Director
- b. Questions and Discussion from Councilmembers
- c. Public Comment Period
- d. Council Deliberation and Motion

EXECUTIVE SUMMARY:

On August 6, 2024, the City Council approved a \$1,100,000 interfund loan from the General Fund to the Wastewater Enterprise Fund. The purpose of the loan was to facilitate the Wastewater Enterprise Fund maintaining a positive cash flow. During the June 16, 2026 Council meeting, as part of the Council's consideration of the FY 26/27 Budget, the City Council directed staff to bring back a future agenda item to authorize forgiveness of the outstanding loan. The proposed resolution, if approved, would forgive repayment of the entire amount of the interfund loan.

BACKGROUND:

On June 18, 2024, the City Council adopted the 2024 Water and Wastewater Rate Study and established water and wastewater rates for Fiscal Years 2024-25 through 2028-29 through Resolution Number 6599-2024. The Wastewater rates were established, in part, based on an understanding that the Wastewater Enterprise would have a deficit of approximately \$1.1 million for FY 2023-24. In order to maintain a positive cash flow for FY 23-24, the City Council adopted Resolution No. 6608-2024 to formally approve a loan from the General Fund to the Wastewater Enterprise Fund. The amount of the loan was \$1,100,000 and the loan was interest free (the "Loan"). The Loan does not include a specific repayment schedule, but requires full repayment of the loan by June 30, 2032.

The Loan was intended to provide temporary financial support to the enterprise fund while longer-term strategies, including future rate adjustments and financial planning efforts, are evaluated.

Since approval of the Loan, the Enterprise Funds Oversight Committee (EFOC) has reviewed the City's water and wastewater rate structure and expenditures, including the City's cost allocation plan to reimburse the General Fund for services it provides to the Enterprise Funds. The EFOC reported that it believes the cost allocation plan has overcharged the Enterprise Funds for the services provided by the General Fund. Additionally, the Sonoma County Grand Jury issued a report in June 2026 making a finding that the City overallocated approximately \$5.5 million of costs to the Enterprise Funds through the CAP prior to the City updating its Cost Allocation Plan in 2024.

The City Council has carefully reviewed the reports of the EFOC and Grand Jury. While this report does not respond directly to the Grand Jury's report (that is covered by a different agenda report), the City Council believes that changes are necessary to help restore public trust and a show of good faith to the community that all options are being explored.



At the July 7, 2026 meeting, the City Council adopted a resolution to not implement the planned water rate increase for FY 26/27 and eliminate tiered water rates until the City had adopted a new water rate study. The Council also previously provided direction to staff to retain a consultant to prepare a new cost allocation study, which will occur prior to or simultaneously with the rate study.

On June 16, the City Council directed staff to bring back a future agenda item to authorize forgiveness of the Loan. The Council reiterated that direction during a closed session on June 29, 2026.

DISCUSSION:

The City Council has the authority to forgive repayment of the Loan. Forgiveness would eliminate the Wastewater Enterprise Fund's obligation to repay the General Fund but would not change the restricted nature of enterprise fund revenues. Funds that would have been used for repayment will instead be used for other wastewater related purposes, such as operations or capital improvement projects. Forgiveness of the Loan could improve the Wastewater Fund's long-term financial position and reduce pressure on future wastewater rates, depending on future costs and revenues. However, Loan forgiveness does not eliminate the need for future wastewater rate studies or resolve all structural revenue challenges within the Wastewater Enterprise Fund.

Forgiving the Loan would provide financial relief to the Wastewater Enterprise Fund but would result in a one-time reduction of General Fund assets, as the loan receivable would no longer be repaid.

CITY COUNCIL GOALS/PRIORITIES/ AND OR GENERAL PLAN CONSISTENCY:

This agenda item represents the City Council goals/priorities as follows:

Goal 5: Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

This agenda item represents the City Council General Plan Consistency (if applicable): Not Applicable

FISCAL IMPACT:

If the City Council elects to forgive the Loan, there would be a one-time financial impact to the General Fund through the elimination of the \$1.1 million receivable. General Fund balance projections for future years will no longer include any revenue associated with repayment of the Loan. Additionally, the Wastewater Enterprise Fund would correspondingly benefit from the removal of the repayment obligation. Rather than being used for Loan repayments, those funds will be available for other wastewater purposes. Any future rate impacts would be evaluated through a wastewater rate study.

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 schedule meeting date. The City has also used social media to promote and advertise the City Council Meeting Agenda Items.

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

RESTATED RECOMMENDATION(S):

That the City Council adopt a resolution forgiving repayment of the outstanding \$1,100,000 loan from the General Fund to the Wastewater Enterprise Fund.



OPTIONS:

The City Council may consider the following alternative options:

1. Take no action, and maintain the existing interfund loan and repayment obligation.
2. Modify the loan repayment terms to provide additional flexibility to the Wastewater Enterprise Fund.
3. Forgive a specific amount of the Loan, eliminating a portion of the Wastewater Enterprise Fund's obligation to repay the General Fund.

ATTACHMENTS:

Resolution

APPROVALS:

Department Head Approval: Approval Date: 7/5/26

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

The proposed action is not a project under the California Environmental Quality Act (CEQA).

Administrative Services (Financial) Approval Date: 7/5/26

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

Account Code (if applicable) N/A

City Attorney Approval: Approval Date: 7/14/26

City Manager Approval: Approval Date: 7/14/26

RESOLUTION NO. XXXX-2026

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL FORGIVING THE INTERFUND LOAN
BETWEEN THE GENERAL FUND AND WASTEWATER ENTERPRISE FUND

WHEREAS, on August 6, 2024, the City Council adopted Resolution No. 6608-2024, establishing an interfund loan from the General Fund to the Wastewater Enterprise Fund in the amount of One Million One Hundred Thousand Dollars (\$1,100,000); and

WHEREAS, the purpose of the interfund loan was to provide temporary financial support and maintain positive cash flow within the Wastewater Enterprise Fund; and

WHEREAS, Resolution No. 6608-2024 provided that the loan would accrue no interest and be repaid in full by June 30, 2032; and

WHEREAS, the City Council has reviewed the financial condition of both the General Fund and the Wastewater Enterprise Fund and has considered the policy implications of maintaining or forgiving the interfund loan; and

WHEREAS, the Enterprise Funds Oversight Committee (EFOC) and Sonoma County Grand Jury have both found that the City's cost allocation plan overcharged the Enterprise Funds for the services provided by the General Fund; and

WHEREAS, the City Council has carefully reviewed the reports of the EFOC and Grand Jury, and believes that changes are necessary to help restore public trust and as a show of good faith to the community that all options are being explored; and

WHEREAS, the City Council has previously directed staff to begin the process of developing a new cost allocation plan; and

WHEREAS, the City Council finds that forgiveness of the loan would eliminate the Wastewater Enterprise Fund's obligation to repay the General Fund and may improve the long-term financial position of the Wastewater Enterprise Fund; and

WHEREAS, the City Council further recognizes that forgiveness of the loan will result in a one-time reduction of General Fund assets through removal of the \$1,100,000 receivable; and

WHEREAS, the City Council finds that forgiveness of the loan would help offset any overallocation charged by the General Fund pursuant to the Cost Allocation Plan; and

WHEREAS, the City Council finds that forgiveness of the loan is in the best interests of the City and will support the ongoing financial sustainability of the Wastewater Enterprise Fund while allowing continued evaluation of future wastewater rate and capital funding needs.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Sebastopol as follows:

1. The above recitals are true and correct, and are incorporated herein by reference.
2. The outstanding interfund loan from the General Fund to the Westwater Enterprise Fund in the amount of One Million One Hundred Thousand Dollars (\$1,100,000), previously established pursuant to Resolution No. 6608-2024, is hereby forgiven. The Wastewater Enterprise Fund shall have no further obligation to repay the loan principal or any associated amount.

3. The repayment requirement contained in Resolution No. 6608-2024, including the requirement that the Wastewater Enterprise Fund repay the General Fund by June 30, 2032, is hereby terminated.
4. To the extent that the City has overallocated the General Fund's cost of providing services to the Wastewater Enterprise Fund, this loan forgiveness shall serve as a repayment to the Wastewater Enterprise Fund by the General Fund of \$1,100,000 for such overallocation. The repayment shall apply first to any overallocation for FY 26-27, and then if funds remain for additional repayment, for overallocations that occurred in each preceding fiscal year.
5. The Administrative Services Director is authorized and directed to make all necessary accounting entries and financial reporting adjustments to remove the interfund receivable from the General Fund and the corresponding interfund payable from the Wastewater Enterprise Fund, consistent with applicable governmental accounting standards.
6. This Resolution shall take effect immediately upon adoption.

IN COUNCIL DULY PASSED, APPROVED AND ADOPTED this 21st day of July, 2026.

I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Sebastopol by the following roll call vote:

VOTE:

Ayes:

Noes:

Absent:

Abstain:

APPROVED:

Mayor Jill McLewis

ATTEST:

Mary Gourley, City Manager

APPROVED AS TO FORM:

Alex Mog, City Attorney