



City of Sebastopol

CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: February 3, 2026

To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
Erik Billing – Acting Public Works Director/Operations Supervisor
Toni Bertolero – Public Works Engineer
Subject: FY25-26 Quarter 2 (October - December 2025) Financial Update – Enterprise Fund

RECOMMENDATION:

Staff recommends the Sebastopol City Council receive year-to-date financial information for the Enterprise Fund.

EXECUTIVE SUMMARY:

Based on the best available information as of December 31, 2025, the city's water fund has billed 51.6% of budgeted revenue for the fiscal year. Expenses are at 50.6% of the fiscal year adopted budget. Wastewater has billed 47.5% of budgeted full year revenue. Expenses are at 42.5% of the fiscal year adopted budget.

BACKGROUND:

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing services are primarily recovered through user fees and charges for services. This includes essential services such as water and wastewater. Activities supported by the Enterprise Fund encompass operations, maintenance, billing and collections, administration, financing, and related debt service. The principal sources of revenue are charges to customers for water consumption, wastewater collection, and fees associated with new service connections.

On the revenue side, the City is in its second year of implementing water and wastewater rate increases. As a result of these rate increases, the City's Enterprise Fund financial position has improved, with income exceeding expenses and generating a positive net impact, rather than the shortfall experienced in past years.

On the expenditure side, spending patterns are not always linear, which is evident in the second-quarter data. Water expenditures appear on track to meet the 50% benchmark, while wastewater spending is currently below that threshold. These fluctuations are typical and primarily reflect the timing of operational activities and capital projects. Overall, the Enterprise Fund continues to operate as a self-sustaining model, ensuring that utility services remain both financially accountable and managed with long-term sustainability in mind.

DISCUSSION:

This report provides an overview of the City's Enterprise Fund performance for the second quarter of FY25-26, using the most current financial data available as of December 31, 2025. It presents a detailed accounting of revenues and expenditures recorded during this period, offering a snapshot of the enterprise financial position at the fiscal year halfway point. Revenue billings reflect 6 months of activities.

STAFF ANALYSIS:

Water:



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The City is in its second year of implementing water rate increases, which have contributed to more stable operations and stronger financial performance. As of midyear, year-to-date revenues stand at \$1.79 million (51.6% of the Adopted Budget), while expenditures total \$1.50 million (50.6%). This results in a positive net position of \$293,923—up from \$274,743 at the same point last year—reflecting modest year-over-year improvement. The continued impact of rate adjustments reinforces fund stability, with income exceeding expenses and delivering a positive outcome rather than a shortfall. Overall, performance remains consistent with typical midyear benchmarks.

Operating expenditures—which include salaries, employee benefits, contracted services, debt service payments, cost allocation plan charges, and transfers out—are currently tracking at 50.6% of the annual budget. This is right on the 50% benchmark typically expected at this point in the fiscal year, it remains consistent with anticipated spending patterns and indicates that expenditures are on track.

Wastewater:

The quarterly report for the Wastewater Fund reflects the same billing period as the Water Fund—July through December—representing the second quarter of the fiscal year. Revenue collection for this period stands at 47.5% of the annual budget. While the Water Fund has surpassed the 50% mark, the Wastewater Fund is close behind. It is important to note that usage typically declines during the winter months, which naturally impacts revenue levels.

On the expenditure side, the Wastewater Fund is tracking at 42.5%, slightly below the 50% benchmark. This variance is primarily due to the timing of Subregional contract payments, which cover five months of service rather than six months. As the fiscal year progresses toward June, full contractual costs will be incurred, and expenditures are expected to align with budgeted projections. Overall, the fund is operating within expected parameters.

Final Note:

As we enter the second year of rate adjustments, the strengthened position of the enterprise fund reflects our ongoing commitment to financial stability and the continued delivery of essential services. Our intent is not to generate excess funds, but to maintain a sound financial foundation and plan responsibly for the future. By setting aside resources for unforeseen needs, we help ensure service reliability and minimize the risk of unexpected financial pressures.

The purpose behind increasing rates is twofold:

1. To ensure rates fully capture our operating expenses, including all associated costs.
2. To create contingency reserves that can address future capital improvements and emergency repairs without jeopardizing service quality or financial stability.

The rates were designed for a five-year period to gradually build reserves for future capital projects, avoiding a single-year spike. This approach ensures revenue aligns with the ramp-up in capital projects. For water, consultant interviews for the \$400,000 design expense are underway, as identified in the rate study for this fiscal year. Additionally, the rates account for hiring an extra maintenance worker in FY 26/27 and another in FY 27/28, shared between water and sewer, as planned in the rate study.



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On the sewer side, CIP projects such as the master plan and Morris Street pump station repairs have not yet been contracted, resulting in lower expenses at this point. Subregional costs are also below 50% due to payment lags, which are reconciled at the end of the fiscal year as stated above.

Water Rate Model:

The Enterprise Fund's financial performance for the second quarter is consistent with the projections outlined in the current Water Rate Model. As part of the quarterly review process, staff conducts a detailed comparison between actual revenues and expenditures against the model's estimates. The alignment confirms the reliability of the rate structure implemented on July 1, 2025, and reinforces its effectiveness in supporting the fund's financial stability and operational needs.

BUDGET COMMITTEE REVIEW

This item was reviewed by the Budget Committee at its meeting on January 12, 2026.

ENTERPRISE FUND COMMITTEE REVIEW

This item was reviewed by the Enterprise Fund Committee at its meeting on January 13, 2026.

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

Goal 5 – Long Term Financial Sustainability

Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

Action Plan 2 – Quarterly Financial Report

Enterprise Fund: A quarterly update is an essential tool for monitoring and managing the financial health of an organization. It provides a snapshot of the financial performance over the past three months, allowing City Council to assess progress, identify trends, and make informed decisions.

FISCAL IMPACT:

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

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.

RESTATED RECOMMENDATION:

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

CITY COUNCIL OPTION(S):

There are no options to consider.

ATTACHMENTS:

Second Quarter Financial Reports



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APPROVALS:

Department Head Approval: Approval Date: 1/6/2026

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: 1/6/2026

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

Account Code (if applicable) _____

City Attorney Approval: Approval Date: 1/21/26

City Manager Approval: Approval Date: 1/21/26

WATER OPERATING FUND
OCTOBER - DECEMBER 2025
QUARTER 2 REPORTING



Description	2024-25 Actual	Y-T-D Actual 12/31/24	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
OPERATING REVENUE					
Usage Charges - Residential	1,782,411	838,079	1,764,321	964,516	54.7%
Usage Charges - Commercial	1,429,003	692,853	1,510,087	766,061	50.7%
Usage Charges - Water Tower	45,047	24,089	54,500	33,256	61.0%
Interest Income	45,171	46,642	75,000	10,326	13.8%
New Service Fee	10,200	5,250	10,000	4,800	48.0%
Penalties	22,067	9,397	20,000	14,252	71.3%
Miscellaneous Income	45,965	874	44,000	600	1.4%
TOTAL REVENUE	3,379,864	1,617,184	3,477,908	1,793,811	51.6%
OPERATING EXPENDITURE					
Salaries & Wages	359,327	165,939	370,268	188,752	51.0%
Benefits	282,390	98,124	244,830	151,936	62.1%
Contracted Services	159,241	73,485	328,800	201,355	61.2%
Services & Supplies	195,954	74,858	222,490	62,388	28.0%
Conference & Training Expense	4,439	3,693	5,000	2,192	43.8%
Utilities	235,947	158,406	317,350	155,368	49.0%
Allocated Insurance	81,510	39,764	104,755	52,378	50.0%
Capital Outlay	-	-	160,500	11,987	7.5%
Debt Service Payments	461,365	277,508	252,657	245,349	97.1%
Cost Allocation Plan	852,863	426,432	845,358	422,679	50.0%
Transfers Out	50,230	24,233	115,000	5,504	4.8%
TOTAL EXPENDITURES	2,683,266	1,342,441	2,967,008	1,499,888	50.6%
Net Surplus/(Deficit)	696,597	274,743	510,900	293,923	

Detail - Water Operation Fund - 500

October - December 2025

Quarter 2 Expenditures



Description	2024-25 Actual	Y-T-D	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
		Actual 12/31/24			
Salaries & Wages					
4010 - Salaries - Full Time	318,931	146,923	345,813	170,218	49.2%
4012 - Overtime	21,733	10,024	24,500	12,299	50.2%
4013 - Standby	14,914	6,442	14,200	6,235	43.9%
4090 - Vacancy Savings	-	-	(14,245)	-	0.0%
4023 - One Time Payment	7,650	2,550	-	-	0.0%
4990 - PW/Staff Time Project Reimb	(3,900)	-	-	-	0.0%
Total Salaries & Wages	359,327	165,939	370,268	188,752	51.0%
Benefits					
4102 - Uniform Allowance	2,550	2,550	-	3,203	0.0%
4105 - Medicare & Fica	5,318	2,450	5,014	2,790	55.7%
4110 - CalPERS Employer Rate	106,282	14,010	33,983	16,769	49.3%
4111 - CalPERS UAL Cost	60,746	30,612	73,475	71,021	96.7%
4130 - Health Insurance	94,970	42,796	115,634	51,719	44.7%
4150 - Dental Insurance	9,740	4,409	11,067	4,947	44.7%
4151 - Vision Insurance	1,026	466	1,088	488	44.8%
4181 - Long Term Disability Insurance	999	493	2,982	519	17.4%
4182 - Short Term Disability Insurance	414	182	497	311	62.7%
4183 - EAP (Employee Asst Prog)	103	46	280	57	20.4%
4184 - Life Insurance	242	110	810	113	13.9%
Total Benefits	282,390	98,124	244,830	151,936	62.1%
Contracted Services					
4210 - Professional Contract Services	140,875	64,316	310,800	190,280	61.2%
4211 - Banking Fees	18,366	9,169	18,000	11,075	61.5%
Total Contracted Services	159,241	73,485	328,800	201,355	61.2%
Services & Supplies					
4301 - Bad Debt Expense	2,110	393	5,000	391	7.8%
4310 - Office Supplies	-	-	1,500	-	0.0%
4330 - Misc Supplies & Services	171,106	64,200	182,090	56,547	31.1%
4332 - Janitorial & Safety Supplies	-	-	1,200	-	0.0%
4361 - Meter Replacement Program	5,992	1,323	7,500	210	2.8%
4365 - Fire Hydrant Replacement Program	13,203	8,942	10,000	-	0.0%
4366 - Backflow Prevention Program	222	-	5,200	5,240	100.8%
4380 - Vehicle Maintenance	3,321	-	10,000	-	0.0%
Total Services & Supplies	195,954	74,858	222,490	62,388	28.0%
Conference & Training Expense					
4510 - Conference & Training	3,051	2,432	3,000	1,964	65.5%
4515 - Meetings & Travel	1,388	1,262	2,000	228	11.4%
Total Conference & Training Expense	4,439	3,693	5,000	2,192	43.8%
Utilities					
4710 - Utilities - Gas & Electric	230,402	155,748	310,000	153,067	49.4%
4750 - Telecommunications	5,544	2,658	7,350	2,301	31.3%
Total Utilities	235,947	158,406	317,350	155,368	49.0%

Detail - Water Operation Fund - 500**October - December 2025****Quarter 2 Expenditures**

Description	2024-25 Actual	Y-T-D Actual 12/31/24	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
Allocated Insurance Others					
4996 - Allocated Liability Insurance	53,266	25,912	71,485	35,742	50.0%
4997 - Allocated Wrkrs Comp Insurance	28,244	13,852	33,270	16,636	50.0%
4998 - Cost Allocation Plan (CAP)	852,863	426,432	845,358	422,679	50.0%
4999 - Transfers Out	50,230	24,233	115,000	5,504	4.8%
5100 - Capital Outlay	-	-	160,500	11,987	7.5%
Total Allocated Insurance Others	984,603	490,429	1,225,613	492,548	40.2%
Debt Service					
6100 - Principal	409,137	233,792	198,633	213,341	107.4%
6200 - Interest	52,229	43,716	54,024	32,008	59.2%
Total Debt Service	461,365	277,508	252,657	245,349	97.1%
TOTAL	2,683,266	1,342,441	2,967,008	1,499,888	50.6%



WASTEWATER OPERATING FUND
OCTOBER - DECEMBER 2025
QUARTER 2 REPORTING

Description	2024-25 Actual	Y-T-D Actual 12/31/24	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
OPERATING REVENUE					
Service Charge - Residential	2,378,207	994,735	2,535,849	1,264,521	49.9%
Service Charge - Commercial	2,295,499	985,476	2,639,354	1,194,357	45.3%
Interest Income	11,305	11,880	20,000	3,099	15.5%
Penalties	20,310	8,203	20,000	13,436	67.2%
Transfers In	-0		-0	-0	0.0%
TOTAL REVENUE	4,705,321	2,000,294	5,215,203	2,475,412	47.5%
OPERATING EXPENDITURE					
Salaries & Wages	310,272	137,471	325,142	164,574	50.6%
Benefits	245,639	84,151	219,286	132,950	60.6%
Contracted Services	(18,805)	17,964	129,550	39,941	30.8%
Subregional Cost	2,118,436	882,682	1,953,889	814,120	41.7%
Services & Supplies	79,268	14,181	107,000	6,134	5.7%
Conference & Training Expense	3,175	1,267	8,000	2,516	31.5%
Utilities	68,698	26,627	65,198	32,030	49.1%
Allocated Insurance	57,065	27,868	68,905	34,452	50.0%
Debt Service Payments	240,038	150,645	119,888	119,888	100.0%
Cost Allocation Plan	908,934	454,467	950,965	475,483	50.0%
Capital Outlay	-	-	148,000	-	0.0%
Transfers Out	32,551	32,105	187,000	51	0.0%
TOTAL EXPENDITURES	4,045,271	1,829,429	4,282,823	1,822,138	42.5%
Net Surplus/(Deficit)	660,050	170,865	932,380	653,274	


Detail - Wastewater Operation Fund - 510
October - December 2025
Quarter 2 Expenditures

Description	2024-25 Actual	Y-T-D Actual 12/31/24	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
OPERATING EXPENDITURE					
Salaries & Wages					
4010 - Salaries - Full Time	271,638	124,463	306,282	150,626	49.2%
4012 - Overtime	19,884	6,202	19,600	8,073	41.2%
4013 - Standby	11,850	4,506	11,500	5,876	51.1%
4090 - Vacancy Savings	-	-	(12,240)	-	0.0%
4023 - One Time Payment	6,900	2,300	-	-	0.0%
Total Salaries & Wages	310,272	137,471	325,142	164,574	50.6%
Benefits					
4101 - Health in Lieu	-	-	-	-	0.0%
4102 - Uniform Allowance	2,300	2,300	2,300	2,993	130.1%
4105 - Medicare & Fica	4,544	2,033	4,441	2,436	54.9%
4110 - CalPERS Employer Rate	93,712	12,165	30,519	15,054	49.3%
4111 - CalPERS Employer Rate-Unfunded	53,360	26,889	63,200	60,971	96.5%
4130 - Health Insurance	81,089	35,988	103,436	45,816	44.3%
4150 - Dental Insurance	8,315	3,707	9,934	4,397	44.3%
4151 - Vision Insurance	875	392	977	433	44.3%
4181 - Long Term Disability Insurance	810	400	2,982	437	14.7%
4182 - Short Term Disability Insurance	340	147	407	264	64.9%
4183 - EAP (Employee Asst Prog)	88	39	280	50	17.9%
4184 - Life Insurance	207	93	810	99	12.2%
Total Benefits	245,639	84,151	219,286	132,950	60.6%
Contracted Services					
4210 - Professional Contract Services	12,829	8,795	110,250	16,404	14.9%
4210 - Subregional O&M	2,118,436	882,682	1,953,889	814,120	41.7%
4211 - Banking Fees	18,366	9,169	19,300	23,537	122.0%
4227 - Private Swr Lateral Grant Program	(50,000)	-	-	-	0.0%
Total Contracted Services	2,099,631	900,646	2,083,439	854,061	41.0%
Bad Debt Expense					
4301 - Bad Debt Expense	2,486	577	5,000	522	10.4%
Total Bad Debt Expense	2,486	577	5,000	522	10.4%
Services & Supplies					
4330 - Misc Supplies & Services	71,960	11,897	89,500	3,703	4.1%
4332 - Janitorial & Safety Supplies	-	-	1,500	-	0.0%
Total Services & Supplies	71,960	11,897	91,000	3,703	4.1%
Special Programs					
4360 - Conservation Rebate Program	-	-	1,000	-	0.0%
Total Special Programs	-	-	1,000	-	0.0%
Vehicle Expense					
4380 - Vehicle Maintenance	4,822	1,708	10,000	1,909	19.1%
Total Vehicle Expense	4,822	1,708	10,000	1,909	19.1%


Detail - Wastewater Operation Fund - 510
October - December 2025
Quarter 2 Expenditures

Description	2024-25 Actual	Y-T-D Actual 12/31/24	2025-26 Adopted Budget	Y-T-D Actual 12/31/25	% of Adopted Budget
Conference & Training Expense					
4510 - Conference & Training	915	328	5,000	2,397	47.9%
4515 - Meetings & Travel	2,260	939	3,000	119	4.0%
Total Conference & Training Expense	3,175	1,267	8,000	2,516	31.5%
Utilities					
4710 - Utilities - Gas & Electric	64,505	24,702	60,000	30,380	50.6%
4711 - Utilities - City Bill	3,080	1,390	3,198	1,018	31.8%
Total Utilities	67,585	26,092	63,198	31,398	49.7%
Telecommunications					
4750 - Telecommunications	1,113	536	2,000	632	31.6%
Total Telecommunications	1,113	536	2,000	632	31.6%
Allocated Insurance					
4996 - Allocated Liability Insurance	30,012	14,600	40,285	20,142	50.0%
4997 - Allocated Wrkrs Comp Insurance	27,053	13,268	28,620	14,310	50.0%
Total Allocated Insurance	57,065	27,868	68,905	34,452	50.0%
G & A Allocation					
4998 - Cost Allocation Plan (CAP)	908,934	454,467	950,965	475,483	50.0%
Total G & A Allocation	908,934	454,467	950,965	475,483	50.0%
Transfers Out					
4999 - Transfers Out	32,551	32,105	187,000	51	0.0%
Total Transfers Out	32,551	32,105	187,000	51	0.0%
Capital Outlay					
5100 - Capital Outlay	-	-	148,000	-	0.0%
Total Capital Outlay	-	-	148,000	-	0.0%
Debt Service Payments					
6100 - Principal	214,370	125,529	97,127	97,127	100.0%
6200 - Interest	25,668	25,116	22,761	22,761	100.0%
Total Debt Service Payments	240,038	150,645	119,888	119,888	100.0%
TOTAL	4,045,271	1,829,429	4,282,823	1,822,138	42.5%