



City of Sebastopol

CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: June 2, 2026

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To: Honorable Mayor and City Councilmembers
From: Enterprise Fund Oversight Committee
Department: Public Works/Administrative Services
Subject: Report Out

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RECOMMENDATIONS): That the City Council receive and file the informational report from the Enterprise Fund Oversight Committee (EFOC) and discuss its recommendations during the FY 2026-27 budget process.

PROCESS OF AGENDA ITEM:

- Presentation of agenda item by staff and Committee
- Council questions of staff
- Public comment
- Council discussion
- Receipt of Item; There is no action to be taken at tonight’s meeting

EXECUTIVE SUMMARY: The Enterprise Fund Oversight Committee (EFOC) was established by City Council direction to provide independent, advisory oversight of the City’s Water and Wastewater Enterprise Funds. Since its organizational meeting on December 17, 2025, the EFOC has conducted a thorough review of financial practices, operational performance, infrastructure needs, and received the requirements of Proposition 218 and Proposition 26 from City Attorney Alex Mog. A brief explanation of Prop 218 and Prop 26 is listed below.

PROPOSITION 218 AND 26 OVERVIEW: Proposition 218 (the “Right to Vote on Taxes Act,” adopted by California voters in 1996) and Proposition 26 (2010) establish strict constitutional protections for ratepayers of property-related fees such as water and sewer charges. Key requirements include:

Proposition 218 (“Prop. 218”) establishes requirements for property-related fees, which includes water and sewer fees. Among other things, Prop 218 requires that: 1) revenues derived from the fee must not exceed the funds required to provide the service; 2) revenues derived from the fee must not be used for any purpose other than that for which the fee is imposed; and 3) fees may not be imposed for general government services.

Prop. 218 allows the General Fund to charge the Enterprise Fund for services but those charges must be based on the actual cost of the services provided. The General Fund can be reimbursed for the services it provides the Enterprise Funds either through “direct charges” or a cost allocation plan.

When a direct charge methodology is used, the General Fund charges labor costs for employees providing services based on the precise services provided. Not only does this approach require employees to constantly track and bill their time, but this approach also does not account for a wide array of indirect costs (such as central administration, IT, insurance, etc.).

A cost allocation plan is a method to assign the Enterprise Funds their share of indirect costs that support their operation.



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BACKGROUND:

The Duties of the Committee in the approved resolution are as follows:

The Committee shall act in an advisory capacity to the City Council and no express authority or power to act on behalf of the City is hereby delegated. To carry out its stated purpose, the Committee shall perform the following duties:

- a) **Reviewing Annual Budgets and Financial Reports:** The Committee will analyze the financial health of the Enterprise Funds, ensuring that budgets and financial statements reflect accurate and sustainable practices.
- b) **Analyzing Rate Studies and Rate Adjustment Proposals:** The Committee will evaluate proposed rate changes, including providing recommendations on cost allocation methods to ensure fairness and financial viability.
- c) **Evaluating Long-Term Financial Planning and Capital Improvement Needs:** The Committee will assess capital improvement plans (CIP), master plans, and long-term financial forecasts related to Enterprise Fund operations, ensuring that projects are properly prioritized and funded and that master planning efforts align with Enterprise Fund financial sustainability.
- d) **Engage with the public and other stakeholders to ensure that the community’s interest and concerns are reflected in the Committee’s recommendations.**
- e) **Such other duties as assigned by the City Council.**
- f) **Shall submit an annual report to the Council in early June before the next fiscal year budget is adopted.**

Committee members include:

- Councilmember Phill Carter (Chair)
- Greg Dabel (Vice Chair)
- Oliver Dick
- Kate Haug
- Mary Meihaus

Staff support was provided by Public Works Operations Supervisor Erik Billing; Public Works Director Oriana Hart; Administrative Services Director Ana Kwong and Admin Tech Torran Korman.

COMMITTEE ACTIVITIES: The EFOC met multiple times as well as conducted joint sessions with the Budget Committee. All meetings were open to the public.

Key activities included:

- Formation of two ad hoc subcommittees
 - Finance/Billing and Infrastructure/Operations—to conduct in-depth analysis
- Requested and received requests for information on:
 - cost allocation
 - billing
 - water rights
 - water quality
 - credit card fees
- Conducted infrastructure walking tours of water and sewer facilities
- Reviewed tracking of Public Works staff hours (water/sewer)
- Analysis of sewer repair priorities and Morris Street pump station data



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- Received presentation on the water master plan

FINANCE / BILLING AD HOC SUBCOMMITTEE RECOMMENDATIONS *(Kate Haug and Mary Meihaus)*

The goal of the Finance and Bill Ad Hoc Committee is to achieve full compliance with Proposition 218 and Proposition 26, protect ratepayers from subsidizing General Fund activities, improve transparency and accountability, and correct long-standing mismanagement issues. This ad hoc committee has provided additional eyes on the enterprise funds with the intention to create a roadmap that creates transparency to the public, having clear, justified data that demonstrates compliance; and importantly rebuilding community trust.

Key recommendations to City Council: It is not the intent of this Ad Hoc Committee to have the City Council implement all recommendations for the current FY budget. Instead, we recommend a phased approach to ensure a smooth and responsible transition.

A brief overview of the recommendations are listed below with the detailed report included to this agenda item as Attachment 1.

Phase 1 – July 1, 2026 – December 31, 2026

1. Reject Current Model (Scenario A) as recommended by the Budget Committee and majority of the Enterprise Fund Oversight Committee and approved by the City Council at their May 5th City Council Meeting. This ad hoc committee recommends that City Engineer contract be a direct billing and that the allocation for Finance/Administrative be cut by 50%. It is also recommended that all contracted services (attorneys, engineers, consultants) should be directly billed.
2. Refund of FY 24 25 and FY 25 26 Attorney Fees (\$350,000). Enterprise funds were charged approximately \$350,000 for attorney fees with minimal actual attorney billings.
3. It is recommended that staff implement employee time tracking Immediately. Per the flyer in the attached report, Springbrook (the City's current finance software) has a time tracking module, or there are other similar low-cost tools for tracking of time. This would allow time to be tracked across General Fund, Water, and Sewer to accurately allocate salaries/benefits as well as provide as a tool for management for review of how time is spent on services. It was also recommended that customer service hours be to 8am-12pm Monday-Thursday with a payment drop-box system located within City Hall for payments outside those hours. Payment drop-boxes are standard in many cities. This would help reduce costs to the enterprise funds while maintaining service levels.
4. Forgive \$1.2M Sewer "Loan" to General Fund. Although repayment is not scheduled until FY 2027-28, the Committee recommends full forgiveness of this loan. It is also recommended that the City review the contract with Syserco and pursue Syserco for overcharges and lack of promised savings. SmartMeters delivered no net cost savings, increased expenses, and introduced new cybersecurity risks.
5. To ensure transparency and accountability, the Public Works Director should be designated as the single lead for Capital Improvement Projects – both to manage timelines and funding - to ensure project completion and financing accountability. It is recommended a monthly or quarterly report be provided to the City Council. The report should include:
 - Status of each active project
 - Costs spent to date
 - Budget vs. actual comparison
 - Timeline and any delays
 - Funding sources and remaining needs



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6. Eliminate Tiered Water Rates and Rate Increases until a compliant cost-allocation model (with time tracking) is in place. It is recommended that the City postpone the upcoming July 1, 2027 rate increase and remove tiered pricing to September 1, 2027 to allow the financial ad hoc committee to review smart meter data to determine impact (minimal or not) to the enterprise fund. Allowing the committee the time to review and provide accurate data regarding removal of tiered rate impacts not only helps to restore public trust, but it is a show of good faith to the community that this committee is reviewing all options.
7. It is recommended that the Committee continue in its role to be advocates for the ratepayers and represent the ratepayers at Council meetings. It is requested that Enterprise Fund financial decisions should be presented to the Committee for review and recommendation before going to Budget Committee and/or City Council.

Phase 2 – January 1, 2017 – June 30, 2027

8. Major Cost Allocation Reforms:
 - o Direct bill all contracts and salaries/benefits based on time tracking.
 - o Adjust shared costs (utilities, yard, etc.) by actual FTE usage.
 - o Eliminate double-charging (e.g., determine accurate fees associated with a single combined water/sewer bill).
 - o Remove non-ratepayer costs (homeless cleanup, holidays, grants, conferences).
 - o Annual true-up via audit with refunds or additional payments.
 - o Reconcile for vacant positions and new hires. Charging for vacant positions is unfair to ratepayers and recommended the need to adjust allocation methods, such as when there are vacant positions.
9. Assume Contractor Management is included in any direct-billed administrative FTEs.
10. Issue RFP for Utility Billing. City staff can research RFPs issued by other California cities of similar size and adapt one for Sebastopol’s specific needs (combined water/sewer billing for ~3,000 customers, 6 bills per year). The goal is to determine whether outsourcing is cost-effective. Issuing the RFP does not commit the City to outsourcing; it provides data and options for future Council decision-making.
11. Forensic Audit. An audit could be conducted to determine if past budgets reconciled over/under payments to the enterprise funds and review vacant position overcharges. Recommendation of a forensic audit is not implying fraud, but to determine correct allocation of charges to the enterprise funds.
12. It is also recommended that an outside consultant would not be required for cost allocation as time tracking data would determine the cost allocations. Once employee time tracking is implemented, the actual time-tracking data will provide the factual basis for all cost allocations.
13. It is recommended that Public Works assess how new development affects the sewer system and implement proactive solutions, including:
 - o Establish a Developer Fee Schedule to generate dedicated funding for necessary sewer system upgrades required by new growth.
 - o Develop a realistic funding and infrastructure timeline ensuring sewer and water system upgrades are completed before new development comes online.
 - o Address the broader issue of Sebastopol’s aging sewer infrastructure, which drives high costs for ratepayers and represents a major source of energy waste.

INFRASTRUCTURE / OPERATIONS AD HOC SUBCOMMITTEE RECOMMENDATIONS (Greg Dabel and Oliver Dick)



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The Infrastructure/Operations Ad Hoc Subcommittee conducted hands-on assessments through multiple facility walking tours, detailed review of the Sewer Master Plan, analysis of Public Works staff time allocation, evaluation of the Morris Street pump station, and review of water quality practices.

The goal of the Infrastructure/Operations Ad Hoc Subcommittee is to conduct in-depth, hands-on analysis of the city's water and wastewater infrastructure and operations to support long-term sustainability, regulatory compliance, and effective capital planning for the Enterprise Funds.

Key recommendations to City Council:

1. Receive and file the full Infrastructure/Operations Ad Hoc Subcommittee report, including all supporting data from:
 - o Infrastructure recorded walking tours (video links attached)
 - o Sewer Master Plan repair priorities
 - o Tracked Public Works staff hours (water vs. sewer)
 - o Morris Street pump station flow rates and electrical usage during rainfall events
 - o Water quality analysis
2. Direct staff to incorporate the subcommittee's findings and prioritize recommendations into:
 - o The Sewer System Master Plan Update (currently being prepared by GHD Inc).
 - o The Water System Master Plan Update (currently being prepared by GHD Inc).
 - o The FY 2026-27 Capital Improvement Plan (CIP), with particular emphasis on the highest-priority sewer line repairs and pump station improvements
 - o Future budget development and ongoing operational reporting to the EFOC
3. Prioritize funding in the FY 2026-27 CIP and future budgets for the top-priority sewer main rehabilitation projects identified in the Master Plan and during field tours.
4. Prioritize funding in the FY 2026-27 CIP and future budgets for the top-priority sewer main rehabilitation projects identified in the Master Plan and during field tours.
5. Direct Public Works staff to implement improved tracking and reporting of maintenance staff time allocation between water and sewer systems. This will better support accurate cost allocation and Proposition 218 compliance.
6. Request staff to evaluate and report back on potential upgrades or operational improvements at the Morris Street pump station to reduce inflow and infiltration (I&I) during wet weather events. This will help lower long-term treatment and energy costs.

The committee as a whole review the recommendations from both subcommittees.

ITEMS OF EFOC COMMITTEE CONSENSUS:

The Committee was in consensus that the items listed below were key items for consideration in the upcoming budget discussions:

Finance

- City should not use any of the Clearsource cost allocation plans and should not use them in the future
- Employees should track time for water/sewer to accurately charge their time
- Eliminate tiered water prices until we have data to determine true costs
- Refunding of attorney's fees to the general fund

Infrastructure

- Focus on I & I to reduce additional costs incurred when it rains



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- Grant seeking for CIP projects
- (more of a finance item but this was a big one for both subcommittees) City should start charging rate payers the 3% fees when they pay with credit card instead of eating the cost

FISCAL IMPACT:

There is no additional fiscal impact associated with receipt of this informational item.

CONCLUSION AND NEXT STEPS: The Enterprise Fund Oversight Committee recommends that the City Council:

- Receive and file this report and its recommendations;
- Discuss the recommendations as part of the FY 2026-27 budget adoption process

CITY COUNCIL ACTION: This is an informational item only. Recommendations to the Council from the Enterprise Fund Oversight Committee could be considered during budget hearings.

ATTACHMENT(S):

- Finance and Billing Ad Hoc Committee Full Report/Presentation
- Infrastructure/Operations Ad Hoc Committee Full Report

APPROVALS:

Department Head Approval: Approval Date: 5/21/26
 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:
 Costs authorized in City Approved Budget: Yes No N/A
 Account Code (if applicable) _____

City Attorney Approval: Approval Date: N/A
 City Manager Approval: Approval Date: 5/21/26

Key Areas for Cost Allocation Discussion

- 1) Contract Services - City Attorney, City Engineer,
- 2) Finance/Administrative Services
- 3) Public Works
- 4) City Council
- 5) City Manager
- 6) Vacant Positions, Projected v. Actual Expenses and Cost Allocation
- 7) Tiered Rates

Key Propositions and State Laws

Prop 218 (1996)

California Proposition 218, passed in 1996, mandates that local water and sewer rate increases cannot exceed the cost of providing services, **prohibiting revenue for general government use.**

Prop 26 (2010)

Passed in 2010, California Proposition 26 amended the state constitution to reclassify many regulatory fees as taxes, requiring a 2/3 supermajority vote by local governments rather than a simple majority

. It restricts fees that address broad environmental or public health impacts, often impacting water and sewer fees if they exceed the specific cost of service.

Key details regarding Prop. 26 and water/sewer fees include:

- Definition of a "Tax": Under Prop. 26, charges that do not directly benefit the payer, but rather the general public (e.g., environmental mitigation), are considered taxes.
- Impact on Water Utilities: The measure was designed to stop "hidden taxes" on water, utilities, and other services.
- Exceptions: It does not apply to:
 - Specific user fees (e.g., a fee for a specific, direct water service).
 - Fees imposed as a condition of property development.
 - Property-related fees already covered by Proposition 218.
- Legal Burden: Local governments must prove that charges are not taxes, and that fees are no more than necessary to cover reasonable costs.

What Must Be Done to Be Prop. 218 and Prop. 26 Compliant

- 1) Move all contracted services - Legal, Engineering, Consultants - to direct billing with invoices tracking to show expenses are for Water and Sewer only.
- 2) Move all salaries and benefits for Finance, Council, City Manager, Public Works to Direct Billing. (Currently double billing for Public Works Salaries in Cost Allocation Plan & Direct Bill).
- 3) Correct FTE positions to reflect historical data and departmental budget narratives. According to the 2014/2015 budget, Finance should have 1.5 FTE between Water and Sewer. This would be .75 FTE for Sewer and .75 FTE for Water. Currently, Finance allocates 75% or 3 FTE To Water and Sewer - .1.5 FTE for Sewer and 1.5 FTE for Water - which has resulted in significant overcharging to Water and Sewer Ratepayers and subsidization of the General Fund, which is illegal.

Public Works 2026 time tracking showed 3 FTE between Water and Sewer. This would be 1.5 FTE for Sewer and 1.5 FTE for Water. Public Works Management .25 FTE Sewer and .25 FTE Water. City Manager and Council Time need to be tracked.

Review budget narratives from 2014-2024 to see job responsibilities for the City versus Water and Sewer. The Budget Narratives for the various City Departments show the full scope of job activities and show how much responsibility is for Water and Sewer in comparison to job functions that serve the City's general function and administration. Very little mention of Water and Sewer can be found in any job descriptions.

- 4) Reduce Departmental Allocation percentages for shared expenses to appropriate amounts. Finance has 1.5 FTE out of 4 FTE, this is 37.5% of the department. The Allocation for shared expenses should be 18.75% for Water and 18.75% Sewer. Public Works has 3.5FTE out of 12 FTE, which is 30%. The Corporate Yard shared Cost Allocation would be 15% Water and 15% Sewer.
- 5) Remove any Departmental Costs that do not relate to Water and Sewer.

- 6) Use actual expenses to determine transfer of funds out of Water and Sewer funds to the City's General Fund.
- 7) Adjust salary and benefit costs when positions are vacant. Recent examples are vacant City Manager and Vacant Director of Public Works.
- 6) Calculate the amount the City has overcharged Ratepayers since 2016 when the City failed to reduce the Cost Allocation percentage in the Finance Department when the Finance Department doubled in size but had the exact same amount of work for Water and Sewer as they did prior to the increase in Department size.
- 7) Calculate the amount the City has overcharged for Contract Services and repay the Water and Sewer Enterprise Funds. Calculate any refunds due to Water and Sewer Ratepayers due to vacant positions. Calculate any refunds due to Water and Sewer Ratepayers as when Cost Allocation transfers were not based on actual expenses.
- 7) Do not increase water rates in July 2026. Remove Tiered Pricing.

**CONTRACT SERVICES -
PER PROP. 218 (1996) AND PROP. 26 (2010)
City Cannot Profit from Contract Services**

- 1) All contract services such as Contract Attorney and Contract Engineer must be direct billed to the Enterprise Fund. If not, the City is using the difference between the contract amount and the amount expensed to the Enterprise Fund as profit to supplement other general services that do not directly benefit the Ratepayer. This is illegal.
- 2) The city may apply an administrative fee to process the invoice and documented staff time to manage the contract. This must be documented.
- 3) No contract services should be included in an allocation plan.
- 4) Per Ana, the City made a \$588,057 profit from ratepayers (FY 2021-2024) by overcharging from what was billed to Water and Sewer through the Cost Allocation Plan v. what was actually billed by the Engineering consultants.

Engineering

FY 21

Allocated \$214,063

Billed 79,853

\$134,210 profit 2021

FY 22

Allocated 259,904

Billed 259,904

\$6676 profit 2022

FY 23

Allocated \$251,946

Billed \$78,613

\$173,333 profit 2023

FY 24

Allocated \$288,047

Billed \$14,200.11

\$273,838 profit 2024

- 5) **Legal Expenses.** Prior to 2024, Larry McLaughlin served as City Attorney and City Manager. Records show that no significant legal action has occurred between 2015 and 2025 except for a suit by River Watched, which was not billed to the Sewer Enterprise Fund. Well 4 is in an on-going lawsuit but 2012 Rate Study shows there was a separate Well 4 litigation fund of \$117,586 in 2012. Legal fees have been consistently charged to ratepayers; no backup documentation exists for fiscal years 2015-2024. Legal fees were reasonable and in-line with other comparable institutions. There is no real contest around fees while Larry McLaughlin served in the role as City Attorney.
- 6) After McLaughlin retired, the City contracted an attorney. The City does not have a Legal Department, it is all contracted services. At this point, the legal fees for Water and Sewer rose dramatically even though there was no litigation for Water and Sewer.
- 7) In Public Records Request from July 10, 2025, it stated FY 2024/25 ratepayers were charged \$51,618 in legal fees. Billing records show that only \$13,850 were actually billed by attorneys.
- 8) From information from an Enterprise Oversight Committee, the Finance Department showed an allocation of \$184,587 for legal fees for FY 2024/2025. Records still show that only \$13,850 were actually billed by attorneys.
- 9) **For FY 2024/2025, Ratepayers were overcharged by \$170,737. Clarification has been received to what was actually allocated.**
- 8) For FY 2025-2026 \$189,263 was allocated. I have requested the attorney bills and thus far it is \$9651.50.

SOLUTION: MOVE ALL CONTRACTED SERVICES TO DIRECT BILLING AND TRACK TIME TO PROCESS INVOICES AND MANAGE CONTRACTS. REFUND RATEPAYERS OVER CHARGES FROM LEGAL AND ENGINEERING CONTRACTS.

Finance/Administrative Services

A History and Why Expenses Increase by 300% in 9 years

Billing fees in 2015 was \$306,989 for Water and Sewer. Billing fees in 2024 were \$944,971 - rising over 3 times in a 9 year period while the number of accounts remained the same.

- 1) The root of this dramatic increase is how the Cost Allocation plan was never adjusted when the Finance Department increased its size from 2014-2016. When the Finance Department added new employees, it should have DECREASED its allocation to Water and Sewer. The amount of account and billing work is STATIC for Water and Sewer. The amount of customers remain more or less the same over a 20 year period. With more employees increasing the budget for the Finance Department, the Cost Allocation should have been adjusted downward.
- 2) From 2014-2024, Finance allocated 71-75% of its total budget to Water and Sewer.
- 3) In FY2014/ 2015, there were only 2 FTE in Finance - a Director and Junior Accountant. In 2014/2015 a 75% allocation to Water and Sewer equaled 1.5 FTE. All the billing and HR responsibilities for Water and Sewer was completed with 1.5 FTE.
- 4) In 2015, Finance hired a third FTE, yet Finance continued to allocate 74% of its budget to Water and Sewer even though the number of bills and PW employees did not increase. At this point, the allocation should have been reduced to reflect 1.5 FTE in a 3 FTE Department. Thus in 2015, the allocation should have been 50% reflecting a 1.5 FTE dedicated to Water and Sewer. (3 FTE minus 1.5 FTE equals 1.5% or 50% of the staff).
- 5) In 2016/2017, Finance added another hire bringing the department total up to 4 FTE. This is a doubling of employees from 2014. The number of utility customers remained the same and remains the same. At this point, the finance department should have reduced their allocation to Water and Sewer to 37.5% to reflect 1.5 FTE out of a total of 4 FTE.
- 6) The failure to adjust the allocation, resulted in massive overcharging of customers.

See below a detailed accounting below:

This Data represents the Finance Department's Budget and Includes the Cost Allocation Rate used, the payment from the General Fund, the payment from the Water Enterprise Fund, the payment from the Sewer Enterprise Fund and the Finance Department's total budget.

In all instances, the General Fund pays considerably less than the Enterprise Fund even though the majority of work done by the Finance Department is in General Services for the City.

FY 2015/2016	General Fund	Water	Sewer	Total Budget
74% CAP Used	\$124,340	\$180,332	\$175,586	\$480,258

If the allocation was reduced to 50% to reflect an increase in staff by 1 FTE, then the allocation to water and sewer should have been \$240,129. By keeping the allocation static, The City overcharged by \$115,789.

FY 2016/2017	General Fund	Water	Sewer	Total Budget
72% CCAP Used	\$152,425	\$222,566	\$216,709	\$606,800

In 2016/2017, finance added another new hire bringing the total FTEs to 4. The allocation should have been reduced to 37.5% to reflect the 1.5 FTE dedicated to Water and Sewer. Accounts remained static. A 37.5% allocation charge to Ratepayers would be \$227,550. The City overcharged by \$211,725.

FY 2017/2018 (don't have budget) - Estimate \$232,897.50 overcharge (10% increase)

FY 2018/2019 (don't have budget) - Estimate \$256,187.25 overcharge (10% increase)

FY 2019/2020 (don't have budget) - Estimate \$281,805.97 overcharge (10% increase)

FY 2020/2021 (don't have budget) - Estimate \$309,986.57 overcharge (10% increase)

NOTE: Budget for Finance doubles in 4 Years. Yet, the number of water accounts remains static.

FY 2021/2022	General Fund	Water	Sewer	Total Budget
74.62% CAP	\$306,073	\$456,110	\$444,107	\$1,206,290

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$452,358.75.

The City overcharged by \$447,859.

FY 2022/2023	General Fund	Water	Sewer	Total Budget
Finance	\$339,720	\$509,078	\$495,682	\$1,344,480

74.73% CAP

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$504,180.

The City overcharged by \$500,580.

FY 2023/2024	General	Water	Sewer	Total Budget
71.6% CAP	\$397,919	\$508,319	\$494,942	\$1,401,180

If the allocation was reduced to 37.5% to reflect 1.5 FTE out of 4 FTE for the entire Finance Department, the Ratepayer cost should be \$525,442.50

The City overcharged by \$477,818.50.

From 2015 - 2024 the City overcharged the Ratepayers at minimum \$2,845,489 (a final number will be available once all budgets are analysed) due to the fact the finance department failed to adjust its allocation to reflect 1.5 FTE out of 4 FTE.

SOLUTION: ALL SALARIES AND BENEFITS FOR FINANCE SHOULD BE DIRECT BILLED. ADJUST TO 1.5 FTE FOR BOTH WATER AND SEWER. .5 FTE ADMIN TECH AND .25 ACCOUNTANT FOR WATER AND .5 FTE ADMIN TECH AND .25 ACCOUNTANT FOR SEWER.

CHANGE FINANCE WATER & SEWER MODEL FOR EFFICIENCY.

- 1) ADMIN TECH CUSTOMER SERVICE HOURS 8-NOON MONDAY - THURSDAY AND ADMIN FUNCTION 4-5 MONDAY-THURSDAY.**
- 2) SEPARATE PO BOX FOR WATER AND SEWER.**
- 3) PAYMENT BOX IN CITY HALL THAT IS AVAILABLE WHEN CITY HALL IS OPEN.**
- 4) EYE ON WATER APP VIDEOS ON CITY WEBSITE.**
- 5) CONSIDER CLOSING COMMERCIAL WATER OPERATION IF THE EXPENSES ARE GREATER THAN THE PROFIT.**

Finance/Administrative Services
Is 1.5 FTE Justified? Or is 1 FTE/ 25% Allocation More Accurate?
75% is not Justified - Ratepayers Need to Be Reimbursed for Overcharging
The Water and Sewer Bill is Combined.
Ratepayers should not be charged 2x for sending out the same bill.

- 1) Per Prop 218 and Prop. 26, Ratepayers are only required to pay for services directly related to Water and Sewer service. In the Finance Department's self produced budget job description and workload produced for the City budgets, Water and Sewer are rarely mentioned. In the below description only 1 out of 48 tasks mentions water and sewer. These narratives are present in all budgets from 2014-2023.

- 2) Finance Department is responsible for Finance, Human Resources and Risk Management and performs many general services tasks for the City that are not related to Water and Sewer. For instance, the 2023 - 2024 City budget is 287 pages long. Water and Sewer account for 7 pages (pages 184-191) or 2.43% of the budget. Is 2.43% a more accurate reflection of the Finance's Department time spent on Water and Sewer?

- 3) Given the wide range of tasks outlined below. Is 1.5 FTE justified?

- 4) 3 FTE or 75% of the Finance budget expensed to Water and Sewer is not legally defensible.

- 5) 1 FTE or 25% of the Finance Department budget seems more appropriate if billing and customer service are streamlined to 1 administrative assistant at .75 FTE and 1 senior administrator at .25 FTE. If customer service hours are reduced to 8-noon M-T with an additional hour from 4-5 for mail collection and payment processing, that would be an assistant at .5 FTE. This would leave an additional .25 FTE for the assistant. The senior position could have 520 hours per year, which seems adequate given the fact that bills are only generated 6x per year, the Enterprise budget is only produced quarterly, contract invoices are less than 10 and Public Works is the only department directly associated with Water and Sewer and their time should be allocated at 35%.

- 6) Water and Sewer bills are sent out 6x per year and are combined. The current allocation model bills each Enterprise fund separately. This would appear to be a double charge as 1 or 1.5 FTE would be taking care of both bills at one time.

SOLUTION: Attribute 1 or 1.5 FTE Salary and benefits to Direct Billing. Allocate 25% or 37.5% Department Overhead to Water and Sewer combined, meaning 12.5% OR 18.75% Water and 12.5% OR 18.75% Sewer.

See the below narrative from the Finance Department for FY 2015/2016

Finance Department

The Finance Department provides support in three distinct areas: Finance, Human Resources, and Risk Management. This department is responsible for the control of the City's financial records; City payroll functions; Employee Benefit and Personnel administration; and Risk Management Insurance administration.

MANDATED

Finance

- Prepare Annual City Budget*
- Prepare Audited Financial Reports*
- Respond to Public Records Requests*
- Prepare Federal, State & County Reports*
- Prepare semi-monthly Payroll*
- Administer Bond Requirements*
- Administer Animal & Business Licensing*

Human Resources/Risk Management

- Ensure compliance with federal and state-mandated requirements*
- Administer City's labor and employee relations program*
- Administer employee medical leaves*
- Administer compensation and benefits*
- Administer hiring processes*
- Serves as one of two City-assigned REMIF Board Members*

CORE

Finance

- Administer Utility Billing Operation*
- Process Accounts Payable/Receivable*
- Process Cash Receipts*
- Perform Treasury Management*
- Perform Financial Analysis*
- Administer and Maintenance ongoing of the City's User Fee Schedule*
- Administers the Street Lighting Assessment District, and the Woodstone Assessment District*
- Maintains the Fixed Asset inventory*

Human Resources/Risk Management

- Provide notice to employees of medical leave and benefits rights under law*
- Resolve return to work, risk management, and safety issues with supervisors and*

managers

Coordinate with oversight and benefit administration organizations
Design and maintain classification and compensation structures
Provide direction to payroll staff for legal compliance for 100 employees
41 Compile and maintain official personnel records for all employees
Maintains and manages the City's Payroll, Personnel, Medical, and Worker's Compensation records
Creates and implements various employee benefit / insurance programs and policies as needed
Updates job descriptions for all departments
Administration of required AB1825 Anti-Harassment training for City staff
Serves as the insurance and benefit administrator for City staff
Manages Public Employee Retirement System program
Administration of the Health, Life, Short Term and Long Term Disability insurance programs
Administration of the City's self-funded Dental and Vision insurance programs
Administers the City's Child Care benefit program
Administers City's 457 Deferred Compensation programs
Administers FMLA Family Medical Leave Act leave of absences for employees
Administers the City's Medical After Retirement programs
Administers the COBRA program for former employees and their dependents
Administration of HIPAA privacy act
Assists employees with all of the City's benefit programs
Responsible for managing REMIF's Risk Management programs including City insurances for Property Insurance, Liability Insurance, Vehicle Insurance, Earthquake & Flood Insurance, and Boiler Insurance
Responsible for managing REMIF's Employee Insurance programs including Health Insurance, Life Insurance, Short Term and Long Term Disability Insurance, and Voluntary Life Insurances
Responsible for management of REMIF's Workers Compensation Insurance coverage
Responsible for maintaining REMIF's list of all property insured for the City including City buildings, City property and the City's vehicle and equipment fleet
Staffing levels for this department were increased mid-way during the 2012/13 fiscal year.

For the 2015/16 fiscal year, the department employed three full-time employees, which matched our staffing levels in calendar year 2009. Even with three full-time employees, our staffing level remains below the high mark of four full-time employees, which the department maintained for most of the 1980's and 1990's. The Director continues to

recommend that staffing levels be increased to four full-time employees.

Major Accomplishments in 2014/2015:

Responded to and provided information for numerous Public Records Requests.

Continued to assist with employee negotiations for the three employee union organizations.

Continued to assist the City Manager with multiple salary and job description modifications.

42 Relocated Finance Director's office to the east-side of City Hall building.

Relocated City Hall's server to upstairs office.

Redesigned and made improvements on the City's annual budget.

Contacted a consultant firm to obtain Citywide I.T supports.

Objectives for 2015/2016:

Upgrade the City's financial software

Update cell tower lease agreement slated to expire June 2016

Collaborate with City Clerk's Office in updating Personnel Resolution

Enhance and invest into staff development

Continue to improve the City's annual budget

Continue to streamline for efficiency with year-end close processes

**ADMINISTRATIVE SERVICES (FINANCE) DEPARTMENT
Narrative for the City's 2023- 2024 Budget (pages 69-71)**

Accountant/Analyst (Confidential)

1.00 FTE

Administrative Services Director

1.00 FTE

Administrative Technician

1.00 FTE

Accountant 1.00 FTE

- Prepare Annual City Budget
- Prepare Audited Financial Reports
- Respond to Public Records Requests
- Prepare Federal, State & County Reports • Prepare bi-weekly Payroll
- Administer Business Licensing
- Ensure compliance with federal and

MANDATED - state-mandated requirements

- Administer City's labor and employee relations CORE • Administer employee medical leaves

- Administer compensation and benefits
- Administer hiring processes

CORE

- Administer Utility Billing Operation
- Process Accounts Payable/Receivable
- Process Cash Receipts
- Perform Treasury Management
- Perform Financial Analysis
- Administer and Maintenance ongoing of the City's User Fee Schedule
- Administers the Street Lighting Assessment District
- Maintains the Fixed Asset inventory
- Design and conduct recruitment and selection procedures
- Assist outside HR Advisor to provide notice to employees of medical leave and benefits rights under law
- Coordinate with outside HR Advisor return to work, risk management, and safety issues with supervisors and managers
- Coordinate with oversight and benefit administration organizations

DISCRETIONARY

- Coordinate the provision of mandatory supervisory training, and of non-mandatory supervisory and managerial training related to legal compliance in employment practices
- Assist outside HR Advisor to confer and coach employees at all levels to identify and resolve workplace concerns
- Compile and maintain official personnel records for all employees
- Maintain, update and disseminate employment-related City policies and procedures

DISCRETIONARY

- Perform Internal/External Audits
- Support Grant Award Administration
- Support City Council Meetings
- Support review Contractual and Lease Agreements
- Assist with performance of Feasibility and Cost-Benefit Studies
- Act as the City's California Public Employees Retirement System liaison

Major Accomplishments in 2022-23:

Received the Distinguished Budget Presentation Award (7th time recipient)
Received the Certificate of Achievement for Excellence in Financial Reporting (6th Time recipient)
Selected a Financial Advisor to assist the City in revenue enhancement, and/or debt refinancing opportunities

Issued RFP/RFQ for Water Rate Study and Human Resource

Developed and Implemented city-wide budget module

Completed Utility User Tax (UUT) ballot

Goals and Objectives for 2023-24:

To fill the remaining vacancy in the Administrative Services Department Issue RFP for

Cost Allocation Plan (CAP)

Create internal service funds

Create 115 Pension Trust

Assist and support Public Works & Engineering with water rate study

Assist Police with email conversion

Convert citywide email domain name from dot.org to dot.gov for security reasons

Continue to be the recipient of the Distinguished Budget Presentation Award

Continue to be recipient of Certificate of Achievement for Excellence in Financial Reporting

Performance Measurements

Unqualified opinion on annual comprehensive financial statements

Percentage (100%) of staff indicating an understanding of internal controls, such as time reporting and adhere to purchasing & travel reimbursement policies

Percentage (99.9%) of accurate tax reporting forms (W-2s and 1099s)

Percentage (5%) utility billing collection rates and number of shut offs

Percentage (0%) of revenues subject to audit or review

Public records act requests fulfilled

Number of reviews and audits conducted

Timely submission of required reports:

State Controller's report

- Street Report
- State Compensation Report
- Annual Maintenance of Efforts (Proposition 172)
- Single Audit

Public Works An Accurate Allocation is Needed

- 1) Public Works is a critical department for Water and Sewer. They perform routine water testing, sewer line flushing, maintenance and repair. It is important to get the Public Works allocation correct as they are the single City Department most directly associated with Water and Sewer Service.
- 2) Until recently, Public Works has not tracked their time spent on Water and Sewer. The Public Works Department has 10 laborers who work 100 hours per week. Time tracking from January and February 2026 indicate that Public Works Employees spend approximately 20% of their time on Water and Sewer. The new Public Works director says that might be higher, perhaps 30%. This would translate to approximately 2-3 FTE in terms of labor and perhaps .25 FTE in terms of Management. (SEE Public Works Narratives from previous budgets which show the huge range of tasks - parks, roads, holiday decorations, bathroom repair and management, homeless cleanup, government buildings, public spaces - that Public Works performs outside of Water and Sewer Tasks.)
- 3) Using the new data, it would appear that 1.5 FTE in Water and 1.5 FTE in Sewer and a 15% allocation of the Corporate Yard for Water and 15% allocation of the Corporate Yard for Sewer would be an appropriate allocation for Public Works.
- 4) Currently, Public Works has 2.85 FTE in Water and 2.3 FTE in Sewer as a distinct line item in the budget. For FY 2024/2025, Water had \$280,890 in salaries, Sewer had \$253,365 in salaries.
- 5) In addition, there are Salaries for Public Works in the Cost Allocation Plan. Water had \$309,277 in Public Works fees via the Cost Allocation Plan and Sewer had \$217,364 fees via the Cost Allocation plan.
- 6) Ratepayers are being overbilled and doubled billed for Public Works Salaries.
- 7) The amount allocated to the Corporate Yard needs to be reduced to reflect actual usage by Water and Sewer.

SOLUTION: Move all Salaries and Benefits to Direct Billing and remove salaries from Cost Allocation Plan. Track time to get an accurate FTE account which will most likely be between 2-3 FTE. Reduce amount of attributed expenses of Corporate Yard to reflect the actual usage by Water and Sewer. Read Budget narratives to get a full scope of Public Works Time spent on Water and Sewer.

City Council

What Percentage is Legal and Accurate

Per Prop. 218, Cost Allocation for City Council is highly regulated and must be documented.

Key Considerations:

- Direct Benefit Rule: Revenue from water/sewer fees must be used strictly for the service itself and cannot be redirected to unrelated city projects like parks, police, or general fund expenses.
- Proportional Cost: Charges must reflect the actual, proportional cost of providing the service to the parcel.
- Permissible Transfers: Transfers from utility accounts to the general fund are only allowed for valid reimbursements of services actually provided to the utility by the city.
- Audit Trail: If Council time is charged, it must be supported by documentation showing the time was dedicated to utility-specific tasks (e.g., rate setting, infrastructure decisions).
- Using enterprise funds for general council duties unrelated to water/sewer management violates the prohibition against using these funds for general governmental services.

1) City Council spends very little time on Water and Sewer. Until the recent formation of the Enterprise Oversight Committee, Council only addressed Water and Sewer at Budget meetings one time per year and with the occasional targeted project like the Syserco Loan. At most, Council spends 4% of their time per year on Water and Sewer.

2) For FY 2024-2025, Ratepayers paid \$102,674 for Council Time. For 2025-2026, \$104,658 is allocated for Council Time. This is not an accurate reflection of time spent on Water and Sewer and needs review.

SOLUTION: ANALYSE AGENDA ITEMS AND REDUCE COUNCIL TIME TO REFLECT ACTUAL TIME SPENT ON WATER AND SEWER. REDUCE ALLOCATION IN COST ALLOCATION PLAN.

City Manager/City Clerk What Percentage is Legal and Accurate

- 1) Using the same Prop. 218 guidelines, the City Manager and City Clerk must prove that their allocation of their time toward Water and Sewer is accurate. As there have been little to no management of the Water and Sewer Enterprise Accounts over the last 20 years and time has not been tracked by the City Manager and the City City, it is impossible to know what the proper allocation would be.
- 2) The Budget Narratives of City Manager and City Clerk show a huge amount of responsibilities that are for general City management and general City business.
- 3) Looking at Council Agendas, Water and Sewer take up less than 4% of the agenda items.
- 4) For FY 2024-2025, Ratepayers paid \$280,228 for City Manager.. For 2025-2026, \$286,063 is allocated for City Manager. This is not an accurate reflection of time spent on Water and Sewer and needs review. In addition, the City did not have a City Manager for the majority of 2025 and part of 2026.
- 5) For FY 2024-2025, Ratepayers paid \$101,163 for City Clerk. For 2025-2026, \$103,725 is allocated for City Clerk. This is not an accurate reflection of time spent on Water and Sewer and needs review.

SOLUTION: Analyze Budget Narratives, Council Agendas and track time to see what an accurate percentage would be for City Manager/ City Clerk. Reduce the Allocation accordingly which reflects documented time. In addition, Ratepayers need to be refunded the excess fees for 2024/2025 and 2025/2026 due to the vacant City Manager Position and inflated Allocation Rate.

Vacant Positions How Are Ratepayers Reimbursed

1) The City often has vacant positions such as the recent vacancies of the City Manager and the Director of Public Works. When the City is not paying salaries for vacant positions, how are Ratepayers reimbursed?

SOLUTION: TRACK VACANT POSITIONS ASSOCIATED WITH THE ENTERPRISE FUNDS AND REDUCE THE AMOUNT EXPENSED TO THE ENTERPRISE FUNDS. RATEPAYERS NEED TO HAVE REDUCED CHARGES FOR THE CITY MANAGER AND DIRECTOR OF PUBLIC WORKS VACANCIES.

PROJECTED V. ACTUAL EXPENSES CITY NEEDS TO BASE TRANSFER ON ACTUAL EXPENSES

1) The City uses projected expenses for budget forecasting. This is a standard procedure. At the end of the fiscal year, the City has the actual expenses. Per Prop. 218, the City should only charge Ratepayers for actual expenses.

SOLUTION: AT THE END OF EACH FISCAL YEAR, ADJUST COSTS FOR ENTERPRISE FUNDS TO MATCH ACTUAL EXPENSES. REFUND ANY EXCESS CHARGES.

City of Sebastopol Tiered Rates - Illegal

- 1) The City of Sebastopol implemented a tiered rate system in 2024 without providing any financial documentation for the rates. This is in violation of Prop. 218, prop. 26 and AB 1827.
- 2) The City of Sebastopol does not buy water and therefore does not have increased water costs if more water is used.
- 3) To run the City of Sebastopol's Water and Sewer system, the majority of costs are fixed and therefore not dependent on usage.
- 4) The City of Sebastopol's infrastructure is old and has not been maintained. In fact, Master Water and Sewer plans are being updated for the first time in 20 years. Thus any incremental damage by higher water users would have already occurred and not be the financial liability of current users.
- 5) As discussed in this document, many aspects of the Ratepayer expenses managed by the City need review and adjustment. Ratepayers will be receiving a refund for overcharges by the City. Therefore accurate pricing is unable to be calculated until the adjustments are made in Ratepayer Expenses.
- 6) To capture increased energy costs at Peak PG&E time, analyze what increases would be legal for water use between 4pm and 9pm.

SOLUTION: AS A TEMPORARY SOLUTION UNTIL THE CITY EXPENSES ARE UPDATED, DO NOT CHARGE TIERED PRICING AND USE THE LOWEST TIER. IN THE FUTURE, IMPLEMENT HIGHER TIERS FOR WATER USAGE DURING PEAK ENERGY COSTS AS DETERMINED BY PG&E PEAK PRICING.

AB 1827 (2025) Tiered Rate Pricing - City Must Provide Proof

AB 1827 provides a "safe harbor" for water agencies to continue implementing conservation-focused, tiered pricing, as long as they can demonstrate the costs are proportionately higher for high-volume users

Tiered water pricing in compliance with California Assembly Bill (AB) 1827 (2024) allows water agencies to charge higher rates for higher water usage, provided that those rates are based on the actual, incremental costs of supplying that water (e.g., peak demand costs, extra infrastructure) rather than purely on conservation incentives

To justify tiered rates under [AB 1827](#) with existing infrastructure and no purchased water, a city must provide defensible, data-driven evidence that higher usage tiers cause higher, proportional costs (e.g., peak demand infrastructure stress, increased pumping/treatment). The rates cannot be arbitrary, even for conservation, and must adhere to Prop 218.

Key Requirements to Justify Tiers:

- Cost-of-Service Analysis: The city must prove with data that higher usage tiers specifically cause higher costs, not just that users consume more.
- [Peaking Factors](#): AB 1827 allows justifying higher rates based on peak usage demand or maximum potential water use. Even with built-out infrastructure, higher, simultaneous demand might require higher pumping rates or faster capacity depletion.
- Proportionality: The rate per unit in higher tiers must be proportional to the cost of serving that specific level of demand.
- Documented Data: The city must have studies showing that, for example, Tier 3 water costs more to deliver than Tier 1 due to the need for peak-load management.

How Much More Can They Charge?

- No Fixed Amount: AB 1827 does not set a specific multiplier.
- Cost-Based: The amount is limited by the documented incremental cost. If, for example, peak demand forces the city to run extra pumps (energy costs) or treat water differently, those specific additional costs determine the rate hike.
- Legality: The rates must not exceed the proportional cost of providing service. If the city cannot prove that high-tier users cost significantly more to serve than low-tier users, high, punitive, tiered rates are likely to be found unconstitutional.
- UC Agriculture and Natural Resources +4
-

Essentially, the city needs a technical, evidence-based report (often using American Water Works Association (AWWA) standards) to justify the price difference.

Tiered Rates - Time of Use Metering and PG&E Pumping Costs

A city or water agency in California can charge higher rates for water used during PG&E peak hours (typically 4 pm–9 pm) under Assembly Bill 1827 (AB 1827), provided the rate structure is directly supported by cost-of-service data

AB 1827, which went into effect on January 1, 2025, allows water agencies to pass on the incrementally higher costs of providing service—such as higher electricity rates for pumping—to customers who create that peak demand.

Here is the breakdown of how this works in accordance with California law:

1. The Legal Basis (AB 1827 & Prop 218)

- Proportional Cost: Proposition 218 requires that fees for water service not exceed the proportional cost of service to a parcel.
- AB 1827 Authorization: This law clarifies that agencies can allocate costs based on "projected peak water usage". It explicitly permits agencies to consider the higher costs associated with specific times of high water demand.
- Justification: The city cannot simply charge more because it is "conservation-oriented." The higher, tiered, or time-of-use rate must be supported by evidence showing it actually costs more to pump, treat, or deliver water during those peak hours.

2. The Relationship to PG&E Rates

If the city pumps water directly into the system or fills tanks during the 4 pm–9 pm peak window, it incurs higher electricity charges from PG&E. AB 1827 authorizes the city to pass these specific "incremental" energy costs onto the customers who are using water during that time.

3. Requirements for the City

- Data-Driven: The city must have data proving that the costs of operating the water system are higher during these specific hours (4 pm–9 pm).
- Time-of-Use Metering: The city must be able to accurately measure water usage during those hours for the rate to be deemed fair and proportional.
- Not a Penalty: The higher rate must reflect actual cost-of-service, not a penalty designed merely to discourage usage.

Summary

AB 1827 strengthens the ability of municipalities to implement Time-of-Use (TOU) rates that align with utility peak pricing (like PG&E's 4–9 pm window). However, the city must conduct a study to prove that the rate increase directly matches the increased cost of operating the system at that time

1. Recommended Cost Allocation Plan : NONE OF THE CURRENT SCENARIOS - See attached documents regarding "Key Points" and "Current Cost Allocation Model"

- a. The Financial Sub-Committee does not recommend any of the scenarios presented as the current models are not best practice and are not supported by documentation. The Finance Sub-Committee recommends moving Engineering Contract to Direct Billing and reducing Financial Administrative Department allocation by 50% based on historical modeling. All contract billing should be moved to direct billing for Prop. 218 compliance.

2. Recommended forgiveness of the \$1.2M Sewer Enterprise "loan" to the General Fund.

- a. The Sewer Fund had no fiscal oversight. Cost Allocation expenses rose by 75% between 2014/2015 and 2019/2020 with no oversight by City Manager or City Council. This drove the Sewer Fund into deficit with no justification for such an extreme rise in costs. Cost Allocation amount in 2014/2015 was \$476,690. Cost Allocation amount in 2019/2020 was \$837,433. There is no data to justify this rise.
- b. The Financial Sub-Committee recommends forgiveness of Loan from General Fund to Sewer Fund as this loan was caused by the gross mismanagement of the Sewer Fund by the former City Manager including the Syserco Loan, which lacked proper due diligence and oversight, not performing regular 3-5 year updating of Cost Allocation Plan, not basing the Cost Allocation Plan on time tracked hours, which is the standard method of proof in court cases involving Prop. 218. **Syserco Loan added \$280,796 annually to Enterprise Funds as 75% of cost was allocated to Enterprise Funds. While the loan was promised to reduce expenses, Finance/Administration expenses INCREASED by \$206,200 or 29% from FY 2021 to 2022! See Cost Allocation for Finance Department at the end of the document. The SmartMeters yielded a net increase of expenses for the Water Enterprise Fund with no discernible energy or cost savings to counteract the loan payment and increase in Finance charges.**
- c. Syserco loan for SmartMeters was done without competitive bidding as Staff used California Government Code Section 4217, the state law that authorizes public agencies to use energy-savings performance contracts to pay for efficiency and infrastructure upgrades using the savings generated by the project itself, rather than upfront capital. Savings have not materialized.
- d. It looks like the City of Sebastopol paid double for SmartMeters when compared to the recent purchase by Sweetwater Springs for similar meters. Sweetwater looks like they got a better service contract.
- e. The Citizen Survey never indicated that SmartMeters would incur debt and increase Water and Sewer Bills.

- f. City should consider suing Sysserco or getting loan forgiveness for Sysserco Loan as cost savings never materialized and City was overcharged by 30-50% for SmartMeters. In addition, SmartMeters provided zero cost savings for the City and might have increased costs. The switch to digital meters leaves the City vulnerable to cyberattacks, which are more aggressive due to the rapid progress of Artificial Intelligence. A case could be made that a small City like Sebastopol would have been significantly better off with analog meters given the increased Cybersecurity risks.
 - g. The aged sewer system of clay pipes is the biggest source of waste within the current system. The clay pipes incur rain water during storms which is then pumped (energy usage) and processed (energy usage and cost) at the Santa Rosa substation. The volume triples during storms, which is hugely expensive and uses substantial amounts of energy. If the Council wanted to remedy a source of waste, money should have been borrowed to fix the clay pipes, which would have shown real savings and conserved energy.
- 3. Refund Enterprise Funds \$350,354 for excessive Attorney Fees for 24/25 and 25/26. There is no data to justify charged amounts. No invoice records, no historical precedent, no reasonable comparison to other districts.**
- a. Prop. 218 and Prop. 26 explicitly state that the City cannot make a "profit" or use Ratepayer Fees as a tax. The City charged Ratepayers \$184,587 for legal fees for FY 2024/2025. Records show that only \$13,850 were billed by attorneys for services rendered to Enterprise Funds. That means the City made a profit of \$170,737. For FY 2025-2026 \$189,263 was allocated. I have requested the attorney bills and thus far shows \$9651.50 was billed resulting in a \$179,617 profit for the City. A total refund of \$350,354 is owed to the Ratepayers/Enterprise Funds for this excessive allocation of Attorney's Fees. Prop. 26 mandates the burden of proof is on the City. The City has no records to document these fees. In addition, the Ratepayers are paying an excessive amount for Administrative Fees and any handling of attorneys contracts or project management should be included in the Administrative Fees Ratepayers are already paying.
- 4. Implement Time Tracking Software for Employees to Record Time. There are many applications that charge a small monthly fee for time tracking. Time tracking is the way to avoid lawsuits and to bill Water and Wastewater correctly and to be most Prop. 218 and Prop. 26 compliant.**
- a. Staff has never implemented any time tracking to account for salaries and hours attributed to Water and Sewer. Any institution that is billing a variety of entities should be tracking time and attributing it accordingly. The City of Sebastopol has at least 3 billing pools: the General Fund, the Wastewater Fund and the Water Fund. Employees should be attributing their time to one of three Funds.
 - b. Springbrook, the City's current administrative software provider, offers time tracking that is integrated into the system the City already uses. See flyer. City can easily implement time tracking using Springbrook.**
 - c. Time tracking can also be used in Council Meetings to determine where Council spends the majority of their focus and time.

- d. Time tracking might also help City Staff and Council see where staff time is spent and help the City decide how to allocate staff time to meet priorities.
- e. Here is a list of potential software vendors addition to Springboard:
<https://connecteam.com/pricing/>
<https://www.infor.com/industries/public-sector#solutions>
<https://www.getharvest.com/time-tracking/time-tracking-app-for-government>
<https://www.timetac.com/en/government-organizations/>

5. Recommended to implement the following measures to be transparent and within Prop. 218 and Prop. 26 Compliance:

- a. Direct billing of contracted services, including any contract services such as Attorney, Contract Engineer, Consultant and all other contractors. This needs to be done immediately.
- b. Implement Time Tracking for any department that bills the Water or Sewer Enterprise Fund. This includes Finance/Administration, Public Works, City Manager, City Council, City Clerk. This has never been done by the City. This is the standard for Prop. 218 Compliance and meets the burden of proof for Prop. 26. Time Tracking should denote if the employee time is spent on Water or Sewer.
- c. Correction of FTE allocations based on Time Tracking. Assume that part of the Salaried Employees job includes managing Contracts so that no additional time will be added for contract management.
- d. Correct managerial Cost Allocation based on time tracking for City Manager, City Council and City Clerk. City Council cannot justify 61% of its time on Water and Sewer.
- e. Adjust shared departmental costs (utilities, office supplies, equipment) based on Departmental FTE. Corporate yard is one example of shared costs.
- f. Direct bill salaries and benefits based on Time Tracking. Remove Salaries and Benefits from Cost Allocation.
- g. Eliminate redundancy. The Finance Department sends out a single Water and Sewer bill. The total time it takes to send out a bill needs to be split between the two accounts. Currently, it is doubled.
- h. Eliminate any costs that are not of benefit to the ratepayer and the delivery of water and management of wastewater such as cleaning up homeless encampments, subsidizing holiday decorations, grants to local nonprofits, conference costs for government employees. Costs that serve the General City Services and General City Government must be eliminated to be Prop. 218 compliant.
- i. When the actual annual expenses are confirmed by an Audit, either additional payment by the Enterprise Fund to the General Fund or a Refund from the General Fund to the Enterprise Fund must be made and recorded. The Audit will reveal either an overpayment or underpayment by the Enterprise Funds. This must be reconciled.

- j. If the Adopted Budget contains vacant positions, a refund must be made to the Enterprise Funds to reflect money transferred via Cost Allocation during the Fiscal Year, which was not spent on the employee as the position was vacant.
 - k. Re-evaluate the Cost Allocation and Direct Salaries any time there is a new hire or vacant position that relates to Water and Sewer Enterprise Funds.
- 6. Include Contractor Management and Invoice Processing in any FTE Administrative Salaries assigned to Water and Sewer.**
- a. It should be assumed that if an Administrator has a direct billed FTE salary assigned to the Water and/or Sewer Enterprise Fund that part of their job is managing contractors and paying contractor invoices as is already the standard practice for contracts paid by the Enterprise Funds.
- 7. Issue Request for Proposals (RFP) for outside utility billing services.**
- a. The Finance Department sends out 6 bills per year to approximately 3000 Water and Sewer Customers. The bill is combined Water and Sewer.
 - b. Billing is extraordinarily expensive and appears to be burdensome to the Finance Department. Bids have been received that are under \$200,000 per year, which is significantly less expensive than the current system. In addition, the City's Finance Department has had problems receiving different types of payment.
 - c. Outside vendors can provide the same service for less money, with more transparency and more accountability.
 - d. Transferring to an outside vendor would free up the Finance/Administrative services for other work for the City.
 - e. Reach out to other cities to see if they have done an RFP.
- 8. Issue Request for Proposals (RFP) for a comprehensive forensic audit of the Enterprise Funds.**
- a. The Committee recommends engaging an independent forensic auditing firm to perform a detailed examination with the following scope: 1) Review past Adopted and Audited Budgets to make sure that the Enterprise Accounts are reconciled for any over or underpayment to the General Fund and 2) Make sure the Ratepayers were not charged for vacant positions.
 - b. Per prop. 218, the City can only charge Ratepayers for ACTUAL expenses.
 - c. Cost Allocation Transfers happen quarterly based on the ADOPTED budget. If the ADOPTED budget is more than the ACTUAL Expenses, Ratepayers are owed a refund. This has not been done for 2024/2025 and 2025/2026. It is unclear if this was ever done, meaning that Ratepayers have been consistently over charged with the overcharge being recorded via City Budgets, which is a violation of Prop. 218. **This is a stark example of how the Cost Allocation Plan does not adhere to Prop. 218 compliance.**
 - d. See Email Exchange with Finance Director Kwong at end of Document.
- 9. Designate Public Works Director as Lead for Capital Improvement Projects and Capital Improvement Financing.**
- a. Historically, there has not been follow through by the City Manager or the Public Works Director to make sure Capital Improvements are completed and funded. This has lead to an aging infrastructure, which now requires extensive Capital

Improvements. The City needs to assign a single person to follow Enterprise Capital Improvements from month to month and year to year and to also follow available capital to make sure that Capital Improvements can be completed on a timely basis. The City's Capital Improvement Lead should work with the Enterprise Oversight Committee to ensure Capital Improvements are identified, funded and completed within a reasonable time line.

10. Recommended that all financial decisions be presented to Enterprise Oversight Committee prior to Council and that Enterprise Oversight Members represent Ratepayers in Council Meetings

- a. Council has an extraordinary amount of data and topics to track. Historically, Council has spent very little time analyzing and following Water and Sewer Capital Improvements or the Enterprise Funds and their Budgets. This has led to problematic decisions like the Syserco Loan.
- b. The Enterprise Oversight Committee focuses solely on the Water and Sewer Enterprise Funds and Capital Improvements. They follow and track Water and Sewer and represent the Ratepayer in decision making. The Enterprise Oversight Committee is typically most versed and historically informed on the budgets and on-going infrastructure needs.

11. Remove Tiered Water Pricing and do not raise water prices until the new Cost Allocation Model supported by time tracking is in place. This has no impact on the General Fund.

- a. Tiered Water Rates are illegal unless tied to costs. The City has not documented any costs in relationship to the current tiered rates. There is no data to support the tiered rates. Per attorney discussion, tiered rates are illegal if there is no documentation. During pricing discussions, members of the public made several requests for data which justified tiered rates. None was presented. City is open to class action lawsuit as there is no documentation to support tiered rates and the previous Cost Allocation Model is not Prop. 218 compliant due to lack of time tracking of employee time.
- b. If the City would like to use Tiered Rates, they could base it on Time of Use when PG&E rates are higher which is 4pm to 9pm. SmartMeters should allow this type of designation.

12. Eliminate Consultant for Cost Allocation Model

- a. Prop. 218 is easy to implement with employee time tracking. Once employees track their time, the Enterprise Committee can establish a Cost Allocation Model based on data from employee Time Sheets. This is best practice and is legally valid.
- b. Retain Enterprise Oversight Committee to update Cost Allocation Model on an annual basis.

13. Work with Public Works to Clarify the Impacts of New Development on the Sewer System to develop

- a. Fee Schedule for Developers to ensure that there is enough funding for System Upgrades needed to support new Development.

- b. City needs to determine 1) How many MORE units can be built under CURRENT capacity and 2) an ideal number of development units we want to see in the future (ie 150 ADUs, 350 hotel rooms, 2500 more bedrooms - dispersed across housing types such as single family, apartment, ADU, etc.)
- c. ADUs under 750 cannot be charged for increased demand and wear on the sewer system either through higher hook up fees or impact fees. Demand, wear and tear on the infrastructure system created by ADUs must be offset by fee increases in other areas. This should be taken into consideration as developers build more ADUs in conjunction with single family and town homes and as individuals add ADUs onto existing properties.
- d. Under Proposition 218, a property with two units can be charged a higher fixed water meter charge than a single-family home if the utility can demonstrate that the two-unit parcel imposes a higher proportional cost on the system. The fee must directly relate to the cost of providing service, and higher usage or demand justifies higher charges. It is recommended that each unit on a property be charged a Water Meter Fixed charge to help fund the wear and tear on the Sewer and Water system from ADUs.
- e. Create a funding and infrastructure timeline that is viable for system upgrades to happen prior to development so the sewer and water systems are robust enough to support new customers.
- f. Create funding model so capital improvement costs are proportional to benefit to property.
- g. Sebastopol's aged sewer system is costly to consumers and probably the biggest source of energy waste as it takes in rain water during high storm periods which is then pumped (energy usage) and processed (cost) at the Santa Rosa station.

Appendices which show Historical Cost Allocation Amounts

Historical List of Finance Department Costs Allocated to Water and Sewer. Note there is a 200% increase of allocated overhead from FY 2015 to FY 2023, 8 Year Period, even though the number of customers and utility bills remain static. Note significant increase AFTER SmartMeters are installed even though cost savings was promoted as reason for increasing Enterprise Fund Expenses for Sysserco Loan.

3. A list by year of Finance Department Fees allocated to the Cost Allocation Plan

	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Water	Admin Svs (Finance)	155,541	171,860	218,500	283,880	326,335	361,733	355,882	463,197	461,983	471,000
Sewer	Admin Svs (Finance)	151,448	167,388	212,826	276,410	317,747	352,212	346,516	451,007	449,826	461,000

Historical List of Legal Charges -

From Adopted Budget, Legal Fees for 2014/2015 were:

Expenditure Allocations 2014/2015

Pg	Department	General Fund	Water Fund	Sewer Fund	Sales T/U Tax	Gas Tax Fund or Park In Lieu	Grants or Other Funding	Total
22	City Council	178,051	22,711	26,496	4,800			232,058
24	Cittaslow	18,000						18,000
30	City Manager	102,517	34,173	34,173	5,500			176,363
32	City Attorney	192,385	10,456	6,273				209,114
35	City Clerk	186,502	17,553	15,359	18,000			237,414
38	Finance	97,155	147,677	143,791	4,800			393,423

From Adopted budget, Legal Fees for 2015/2016 were:

ALL FUND EXPENDITURES ALLOCATION

Department	General Fund	Water Fund	Sewer Fund	Gas Tax Fund	Grants or Other Funding	Total
Projected Revenue	7,765,531	2,079,908	3,035,000	173,600	1,356,060	14,410,099
City Council	183,737	24,979	29,142			237,858
Cittaslow	20,000					20,000
City Manager	154,877	37,292	37,292			229,461
City Attorney	129,168	7,020	4,212			140,400
City Clerk	223,834	20,690	18,104			262,628
Finance	124,340	180,332	175,586			480,258

From a Public Records request, attorney's fees range from \$8754 to \$51,618 from FY 2017 to 2024. In FY 2024/2025 \$184,587 was charged to Ratepayers for legal fees. FY 2025-2026 \$189,263 was allocated. **There are no significant legal challenges to the Water or Sewer activities which would warrant a 250% increase.** Note: Attorney services are contracted and would have invoices to match services. No invoices have been produced that match these fees.

PRA	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
#1 thru #4	City Attorney - Water	N/A - Data in Legacy System		6,851	6,802	5,472	7,466	7,752	12,938	16,341	32,262
	City Attorney - Wastewater			4,111	4,081	3,282	4,478	4,652	7,762	9,805	19,356
	Total Enterprise Allocation			10,962	10,883	8,754	11,944	12,404	20,700	26,146	51,618

Email Correspondence with Finance Director Kwong re: Audited v. Actual Budgets and the Cost Allocation Plan:

Director Kwong's Statement

Perhaps the grid below may be helpful in illustrating this inquiry. Up until FY 2024–25, the City has annually true up the cost allocation plan using actual, audited expenditures. Any variance between budgeted allocations and actual costs was addressed through this annual true-up process as you can see in highlighted yellow. I am providing the Finance Department as an initial example to confirm that this approach meets your needs before proceeding with other departments.

With the current cost allocation plan approved by the City Council, no separate true-ups were performed for FY 2024–25 or FY 2025–26 and cost allocation happens based on the adopted budget. However, the FY 2026–27 cost allocation plan (the Option A placeholder, as discussed by the Budget Committee and the Enterprise Fund Oversight Committee) is based on FY 2024–25 actual expenditures, which effectively serves as the true-up for FY 2024–25.

		Prior Method - Flat Percentage										
		FY20/21		FY21/22		FY22/23		FY23-24		FY24-25	FY25-26	FY26-27
		Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	New Method		
	% Alloc	1,057,025	936,498	1,344,290	1,218,939	1,362,180	1,215,745	1,337,680	1,259,963	1,303,522	1,411,268	1,353,783
Finance - Water	38%	401,670	355,869	510,830	463,197	517,628	461,983	508,318	478,786	306,241	303,546	280,177
Finance - Sewer	37%	391,099	346,504	497,387	451,007	504,007	449,826	494,942	466,186	323,159	338,103	323,628
Total		792,769	702,374	1,008,218	914,204	1,021,635	911,809	1,003,260	944,972	629,400	641,649	603,805

Kate Haug Response:


How is the difference between the Adopted and Actual Budget reconciled? For instance, for 20/21, the General Fund owes the Enterprise Fund \$90.395 for the difference between Adopted and Actual Budget. Does the General Fund make a transfer for the \$90,395 back to the Enterprise Funds to reconcile the difference?

The Third Quarter Water Fund Budget with Notations Showing Duplication

WATER OPERATING FUND						
JANUARY - MARCH 2026						
QUARTER 3 REPORTING						
Description	2024-25 Actual	Y-T-D Actual 3/31/25	2025-26 Adopted Budget	2025-26 Adjusted Budget	Y-T-D Actual 3/31/26	% of Adjusted Budget
OPERATING REVENUE						
Usage Charges - Residential	1,782,411	1,311,446	1,764,321	1,764,321	1,208,485	68.5%
Usage Charges - Commerical	1,429,003	1,060,010	1,510,087	1,510,087	948,292	62.8%
Usage Charges - Water Tower	45,047	33,964	54,500	54,500	37,764	69.3%
Interest Income	45,171	46,642	75,000	75,000	18,513	24.7%
New Service Fee	10,200	7,800	10,000	9,600	6,750	70.3%
Penalties	22,067	18,329	20,000	21,375	17,607	82.4%
Miscellaneous Income	45,965	874	44,000	44,600	800	1.8%
TOTAL REVENUE	3,379,864	2,479,065	3,477,908	3,479,483	2,238,212	64.3%
OPERATING EXPENDITURE						
Salaries & Wages	268,227	268,227	370,268	384,513	296,297	77.1%
Benefits	282,390	158,366	244,830	233,946	206,249	88.2%
Contracted Services	159,241	101,997	340,750	319,470	225,005	70.4%
Services & Supplies	195,954	140,966	244,000	219,990	112,674	51.2%
Conference & Training Expense	4,439	4,197	5,000	5,000	2,547	50.9%
Utilities	235,947	192,460	317,350	317,350	188,397	59.4%
Allocated Insurance	81,510	59,646	104,755	104,755	78,567	75.0%
Capital Outlay	-	-	267,500	160,500	11,988	7.5%
Debt Service Payments	461,365	277,508	252,657	252,657	245,349	97.1%
Cost Allocation Plan	52,863	639,647	845,358	845,358	634,019	75.0%
Transfers Out	50,230	25,322	115,000	115,000	50,075	43.5%
TOTAL EXPENDITURES	2,683,266	1,868,336	3,107,468	2,958,540	2,051,165	69.3%
Net Surplus/(Deficit)	696,597	610,729	370,440	520,943	187,046	

Moving forward all salaries should be included in Salaries and Wages. All Contracted Services should be in Contracted Services. Administrative costs included in the Cost Allocation plan need to correspond to Time Tracking. Only costs that can be tracked to Water Service can be put into Cost Allocation Plan. Administrative costs should include any contractor management and invoice processing.
The difference between CAP Transfers OUT of the Water Enterprise Funds must be reconciled with the Actual Audited Expenses via transfer.

The Third Quarter 2026 Wastewater Fund Budget

WASTEWATER OPERATING FUND JANUARY - MARCH 2026 QUARTER 3 REPORTING						
						
Description	2024-25 Actual	Y-T-D Actual 3/31/25	2025-26 Adopted Budget	2025-26 Adjusted Budget	Y-T-D Actual 3/31/26	% of Adjusted Budget
OPERATING REVENUE						
Service Charge - Residential	2,378,207	1,782,533	2,535,849	2,535,849	1,675,202	66.1%
Service Charge - Commercial	2,295,499	1,729,189	2,639,354	2,639,354	1,577,863	59.8%
Interest Income	11,305	11,880	20,000	20,000	6,697	33.5%
Penalties	20,310	16,587	20,000	20,000	17,668	88.3%
Transfers In	-0		-0	-0	-0	0.0%
TOTAL REVENUE	4,705,321	3,540,189	5,215,203	5,215,203	3,277,430	62.8%
OPERATING EXPENSES						
Salaries & Wages	310,272	227,210	325,142	337,382	259,641	77.0%
Benefits	245,639	136,151	219,286	206,320	181,196	87.8%
Contracted Services	(18,805)	18,658	129,550	132,400	45,208	34.1%
Subregional Cost	2,118,436	1,412,291	1,953,889	1,953,889	1,302,593	66.7%
Services & Supplies	79,268	27,736	107,000	99,000	31,164	31.5%
Conference & Training Expense	3,175	2,458	8,000	8,000	2,881	36.0%
Utilities	68,698	50,500	65,198	64,698	54,855	84.8%
Allocated Insurance	57,065	41,802	68,905	68,905	51,678	75.0%
Debt Service Payments	240,038	150,645	119,888	119,888	119,888	100.0%
Cost Allocation	908,934	681,701	950,965	950,965	713,224	75.0%
Capital Outlay	-	-	68,000	148,000	-	0.0%
Transfers Out	32,551	32,402	187,000	187,000	51	0.0%
TOTAL EXPENDITURES	4,045,271	2,781,554	4,202,823	4,276,449	2,762,378	64.6%
Net Surplus/(Deficit)	660,050	758,635	1,012,380	938,754	515,052	

Water and Wastewater Funds are both paying for PW salaries as separate items in addition to Public Works salaries in Cost Allocation Plan. In addition, Water and Sewer are both paying for Administrative Costs in Cost Allocation Plan, even though they are administratively handled together. For instance, there is a single bill for Water and Sewer. Yet, Ratepayers are charged for twice for billing. Time tracking is needed to reduce redundancy in billing and to confirm Ratepayers are not double billed. The potential for over billing is high if you have salaries as both line items and in Cost Allocation and administrative services does not denote if a service is for Water or Sewer.

Cost Allocation Comparisons

2014/2015 Cost Allocation Breakdowns which clearly show what percentages of City Administration are allocated to Water Enterprise and Sewer Enterprise:

Fiscal Year 2014/2015
Staffing Allocations

Description	Number of Employees	--- Percent of Time Allocated by Fund ---				
		General Fund	Water Enterprise	Sewer Enterprise	Gas Tax	TOTAL
<u>CITY COUNCIL</u>						
Councilmembers	5	74%	12%	14%		100%
Video Recorder	1	74%	12%	14%		100%
Total	6					
<u>CITY MANAGER/ CLERK</u>						
City Manager *	1	60%	20%	20%		100%
City Clerk	1	85%	8%	7%		100%
Total	2					
<u>CITY ATTORNEY</u>						
City Attorney *	1	92%	5%	3%		100%
Total	1					
<u>FINANCE</u>						
Director	1	33%	34%	33%		100%
Junior Accountant	1	33%	34%	33%		100%
	2	33%	34%	33%		100%
Total	3					
<u>BUILDING</u>						
Building Official	1	74%	13%	13%		100%
Admin Asst - Fire Station **	.60	74%	13%	13%		100%
Total	1.50					
<u>COMMUNITY DEVELOPMENT</u>						
Engineering Director	1	33%	34%	23%	10%	100%
Part-time City Engineer	.50	33%	34%	23%	10%	100%
Admin Asst - Corp Yard ***	.50	33%	34%	23%	10%	100%
Planning Director	1	92%	5%	3%		100%
Assistant Planner	.85	92%	5%	3%		100%
Admin Asst - Planning	.76	92%	5%	3%		100%
Total	4.61					
<u>FIRE</u>						
Fire Chief	1	97%	3%			100%
Volunteers	30	97%	3%			100%
Admin Asst - Fire Station **	.40	97%	3%			100%
Total	31.40					

Current Allocation Structure which shows a dramatic increase in Council Time and City Clerk Time allocated to Enterprise Funds without any data to back it up. In 2014/2015 City Attorney was inhouse and was allocated at 8%. In 2025, Attorney is Contract and allocated at 29%. Contract attorney should be direct bill and there is no justification for a significant increase.

Table: Proposed allocation as a % of Department Budgets


	FY25-26 Cost	26-27 Proposed	% of
	Allocation	Budget	Budget
City Council	\$ 104,658.00	\$ 171,408	61%
City Manager	\$ 286,063.00	\$ 594,766	48%
City Attorney	\$ 189,263.00	\$ 643,750	29%
City Clerk	\$ 103,725.00	\$ 282,477	37%
Admin Svs(Finance)	\$ 641,649.00	\$ 1,512,645	42%
	\$ 1,325,358.00	\$ 3,205,046	41%

2014/2015 Budget Shows 3.5 FTE attributed to Public Works

	Total	33				
PUBLIC WORKS						
Superintendent	1	100%				100%
Assistant Superintendent	1	40%	40%	20%		100%
Water Treatment Operator	1	0%	50%	25%	25%	100%
Senior Maint Worker	1	0%	30%	50%	20%	100%
Maintenance Worker III	1	0%	50%	20%	30%	100%
Maintenance Worker II	2	30%	20%	20%	30%	100%
Maintenance Worker I	1	40%	20%	20%	40%	100%
Laborer	4	80%	0%	0%	20%	100%
Admin Asst - Corp Yard **	.50	100%				100%
Total	12.50					

Total of 3.25 FTE Public Works Direct Billed to Water and Sewer. 5th column is percentage paid by Gas Tax. 2nd column is paid by General Fund

This is reflected in the Budgets for Water and Wastewater:

 **Note: PW salary 2.5 FTE**

*City of Sebastopol
2014/2015 Budget Expenditures*

Account No. **510-6510**
Department: **Water Operations**

Object	Description	2011/2012 Actual Expenditures	2012/2013 Actual Expenditures	2013/2014 Budgeted Expenditures	2013/14 Expenditures YTD to 6/5/14	2014/2015 Department Request
6010	Salaries (Includes 2.50 FTE)	151,574	155,197	153,183	138,347	178,986
6011	Standby	9,395	8,237	8,237	8,708	8,237
6020	Overtime	1,487	780	4,025	3,982	3,510
6023	Benefits	69,650	73,291	78,800	78,800	81,720
PERSONNEL COSTS SUBTOTAL		232,106	237,505	244,245	229,837	272,453
6025	Communications	3,300	2,500	3,900	3,300	3,900
6050	Misc. Supplies / Services *	64,111	69,395	85,820	78,025	94,820
6060	Training	1,256	1,600	1,600	760	2,100
6330	Utilities	94,743	105,000	150,000	89,762	150,000
6425	REMIF Liab., Prop, Flood Ins.	15,538	16,636	14,387	14,387	16,049
6806	Backflow Prevention Program	1,299	500	300	300	2,000
6807	Fire Hydrant Rplcmnt Program	8,093	9,000	15,000	14,424	15,000
6808	Meter Replacement Program	20,019	18,000	20,000	10,700	20,000
6860	Contract Services ** (see detail)	20,645	4,000	11,200	8,792	65,000
8020	Cal OSHA Safety Update	0	10,000	10,000	10,000	8,500
TOTAL OPERATING		\$461,110	\$474,136	\$556,452	\$460,287	\$649,822
Maintenance Outlay - Water Operations 510						
6537	Replace Cathodic Protection @ Reservoirs	0	2,617	0	0	0
6910	Generator (½ Cost)	0	0	800	800	0
6911	Soil/ & Asphalt Compactors (½ Cost)	0	0	2,560	2,779	0
6912	SCADA Component (½ Cost)	0	0	600	633	0
6954	Oil Storage Container	0	0	0	0	1,250
6955	2 Pickups (1/3 Cost Shared w/ Sewer & GF Streets)	0	0	0	0	22,000
6966	Well Improvements **	1,081	1,000	0	0	0
6968	Pressure Sensing Valve	6,632	0	0	0	0
7039	Well 8 Repairs	27,431	0	0	0	0
TOTAL CAPITAL		\$35,144	\$3,617	\$3,960	\$4,212	\$23,250
TOTAL DEPARTMENT		\$496,254	\$477,753	\$560,412	\$464,499	\$673,072

* and ** See next page for account details.

NOTE: PW Salary 1.75 FTE ONLY in Expense not in Cost Allocation

*City of Sebastopol
2014/2015 Budget Expenditures*

Account No. 420-6420
Department: Sewer Operations

Object	Description	2011/2012 Actual Expenditures	2012/2013 Actual Expenditures	2013/2014 Budgeted Expenditures	2013/14 Expenditures YTD to 6/5/14	2014/2015 Department Request
6010	Salaries (Includes 1.75 FTE)	114,247	115,568	110,033	100,182	124,106
6011	Standby	9,636	8,448	8,448	8,932	8,448
6020	Overtime	1,237	800	3,432	3,396	3,600
6023	Benefits	51,606	54,987	57,065	57,065	59,155
PERSONNEL COSTS SUBTOTAL		176,726	179,803	178,978	169,575	195,309
6025	Communications	2,216	2,000	2,400	2,002	2,400
6049	Low Flow Toilet Rebates	900	1,000	1,300	1,425	1,300
6050	Misc. Supplies/ Services *	32,050	34,735	36,450	31,838	36,450
6060	Training	799	1,000	1,000	751	1,500
6310	Litigation Expense (Morris St)	29,435	10,000	0	0	0
6330	Utilities	24,018	24,500	28,900	26,018	28,900
6425	REMIF Liab., Prop, Flood Ins.	10,025	9,758	8,146	8,146	8,701
6860	Contract Services **	8,394	0	67,040	62,970	18,795
8020	Cal OSHA Safety Update	0	10,000	10,000	10,000	8,500
TOTAL OPERATING		\$284,563	\$272,796	\$334,214	\$312,725	\$301,855
Maintenance Outlay - Sewer Operations 420						
6910	Generator (½ Cost)	0	0	800	800	0
6911	Soil/Asphalt Compactor (½ Cost)	0	0	2,560	2,778	0
6912	SCADA Component (½ Cost)	0	0	600	633	0
6955	2 Pickups (1/3/ Cost Shared w/Water & GF Streets)	0	0	0	0	22,000
7012	Green Valley Pump Station	0	0	0	0	20,500
TOTAL CAPITAL		\$0	\$0	\$3,960	\$4,211	\$42,500
TOTAL DEPARTMENT		\$284,563	\$272,796	\$338,174	\$316,936	\$344,355

* and ** See next page for account details.



City of Sebastopol
2014/2015 Budget Expenditures

Account No. 510-6XXX-6005

Department: Water Administration Departmental Allocations

<u>Object</u>	<u>Description</u>	<u>2011/2012 Actual Expenditures</u>	<u>2012/2013 Actual Expenditures</u>	<u>2013/2014 Budgeted Expenditures</u>	<u>2013/14 Expenditures YTD to 6/5/14</u>	<u>2014/2015 Department Request</u>
6010	City Council	10,646	12,378	21,047	17,539	22,711
6020	City Manager	41,231	31,565	33,432	27,860	34,173
6040	City Attorney	9,657	9,969	10,277	8,564	10,456
6021	City Clerk	10,991	11,926	15,196	12,663	17,553
6030	Finance	75,649	86,035	121,584	101,320	147,677
6120	Auditing / Non-Departmental	7,227	0	6,548	5,457	8,879
6280	Fire	16,931	16,694	17,312	14,427	43,849
6050	Planning	11,583	14,546	16,861	14,051	18,007
6290	Building	25,650	25,970	27,723	23,102	28,698
6300	Engineering	85,214	80,206	105,374	87,812	97,909
6310	Corporation Yard	132,622	135,113	149,354	124,462	161,436
6060	Government Buildings	10,581	9,370	10,933	9,110	12,871
6130	Village Mobile Home Park	2,790	6,030	5,400	4,500	5,400
TOTAL ALLOCATIONS		\$440,772	\$439,802	\$541,041	\$450,867	\$609,619

NOTE: No Public Works Salaries in Cost Allocation Plan. All are Direct Billed



*City of Sebastopol
2014/2015 Budget Expenditures*

Account No. 420-6XXX-6005
Department: Sewer Administration Departmental Allocations

<u>Dept</u>	<u>Description</u>	<u>2011/2012 Actual Expenditures</u>	<u>2012/2013 Actual Expenditures</u>	<u>2013/2014 Budgeted Expenditures</u>	<u>2013/14 Expenditures YTD to 6/5/14</u>	<u>2014/2015 Department Request</u>
6010	City Council	12,421	14,441	24,555	20,462	26,496
6020	City Manager	41,231	31,565	33,432	27,860	34,173
6040	City Attorney	5,311	5,981	6,166	5,138	6,273
6021	City Clerk	9,617	10,435	13,297	11,080	15,359
6030	Finance	73,424	83,504	118,008	98,340	143,791
6120	Auditing / Non-Departmental	7,227	7,515	6,548	5,457	8,879
6050	Planning	11,583	8,728	10,117	8,431	10,804
6290	Building Inspection	25,650	25,970	27,723	23,102	28,698
6300	Engineering	57,645	54,257	71,282	59,402	66,232
6310	Corporation Yard	96,704	98,520	108,904	90,753	117,714
6060	Government Buildings	0	9,370	10,933	9,110	12,871
6130	Village Mobile Home Park	2,790	6,030	5,400	4,500	5,400
TOTAL ALLOCATIONS		\$343,603	\$356,316	\$436,365	\$363,635	\$476,690

NOTE: No Public Works Salaries in Cost Allocation

There is a dramatic increase in the Cost Allocation Budget from 2014/2015 to 2019/2020. A 66% increase for Water and a 75% increase for Wastewater with no explanation or data to support. See following charts:

**Detail - Water Fund
Budget Expenditures**

2019/2020 Water Budget. Cost Allocation Plan has increased by \$403,803 in 5 years - 66% increase. PW FTE direct billed salary remains steady 2.53 FTE

Account Number	Description	2016-17 Actual	2017-18 Actual	2018-19 Adopted Budget	2018-19 Adjusted Budget	2018-19 Estimated Actual	2019-20 Adopted Budget
500-4402-4010	Salaries ¹ (2.58 FTE)	238,630	194,336	240,400	240,400	240,400	236,300
500-4402-4011	Salaries - Part Time	-	-	25,000	25,000	25,000	25,000
500-4402-4012	Overtime	7,759	7,864	10,000	10,000	10,000	10,000
500-4402-4013	Standby	9,488	7,781	10,000	10,000	10,000	10,000
500-4402-4100	Benefits ²	105,398	125,721	112,200	112,200	112,200	123,100
500-4402-4210	Contract Services	63,113	164,870	88,800	116,800	116,800	108,900
500-4402-4330	Misc. Supplies / Services	118,088	116,132	140,750	136,250	136,250	136,100
500-4402-4361	Meter Replacement Program	18,458	14,756	21,000	21,000	21,000	21,000
500-4402-4365	Fire Hydrant Replacement Program	15,026	12,647	15,750	15,750	15,750	15,750
500-4402-4366	Backflow Prevention Program	2,050	2,707	3,150	3,150	4,200	4,500
500-4402-4510	Conference & Training	8,064	210	3,000	3,000	3,000	3,000
500-4402-4515	Meetings & Travel	-	4,343	6,000	6,000	6,000	6,000
500-4402-4750	Telecommunications	5,324	4,957	6,550	6,550	6,550	6,750
500-4402-4710	Utilities - Gas & Electric	131,352	144,236	162,000	162,000	164,000	196,000
500-4402-4996	Allocated Liability Insurance	19,079	11,053	24,350	24,350	24,350	28,500
500-4402-4997	Allocated Wrkrs Comp Insurance	-	13,222	15,000	15,000	15,000	17,700
500-4402-5100	Capital Outlay	-	4,375	36,200	194,200	194,200	55,800
500-9971-6100	Infrastruture Lease - Principal	42,300	46,556	48,841	48,841	48,841	51,239
500-9971-6200	Infrastruture Lease - Interest	28,500	24,247	21,961	21,961	21,961	18,321
500-9973-6100	CREBS Solar Panel Lease - Principal	31,023	31,024	31,024	31,024	31,024	31,024
500-9974-6100	Vacuum Truck Lease - Principal	6,296	12,596	13,096	13,096	13,096	13,392
500-9974-6200	Vacuum Truck Lease - Interest	745	1,490	988	988	988	691
500-0000-4999	Debt Service - Water Capital	-	283,817	176,068	176,068	176,068	146,771
500-0000-4999	Transfer to Capital Project	-	31,844	-	-	-	45,000
Total Operation		850,693	1,260,784	1,212,128	1,393,628	1,396,678	1,310,838
500-1001-4998	G & A Allocation - City Council	29,987	23,590	26,284	26,284	26,284	29,468
500-1101-4998	G & A Allocation - City Manager	35,588	36,740	43,640	43,640	43,640	44,960
500-1201-4998	G & A Allocation - City Attorney	6,851	6,802	7,168	7,168	7,168	7,375
500-1301-4998	G & A Allocation - City Clerk	20,586	20,895	23,290	23,290	23,290	25,794
500-1401-4998	G & A Allocation - Finance	218,500	296,901	338,363	349,763	349,763	381,834
500-2102-4998	G & A Allocation - Planning	20,431	22,280	25,555	25,555	25,555	26,593
500-2202-4998	G & A Allocation - Building	31,016	30,192	33,943	33,943	33,943	41,132
500-2302-4998	G & A Allocation - Engineering	89,804	96,917	96,815	96,815	96,815	106,998
500-3102-4998	G & A Allocation - Fire	57,113	67,300	61,451	61,451	61,451	75,891
500-4102-4998	G & A Allocation - PW Corp Yard	170,404	203,894	213,528	213,528	213,528	218,832
500-4106-4998	G & A Allocation - PW Govt Bldg	21,210	23,910	24,006	24,006	24,006	30,281
500-0000-4998	G & A Allocation - Non Departmental	24,837	21,717	20,281	20,281	20,281	24,264
Total Department Cost Allocation		726,327	851,138	914,324	925,724	925,724	1,013,422
TOTAL DEPARTMENT		1,577,020	2,111,922	2,126,452	2,319,352	2,322,402	2,324,2

Microsof

**Detail - Wastewater Fund
Budget Expenditures**

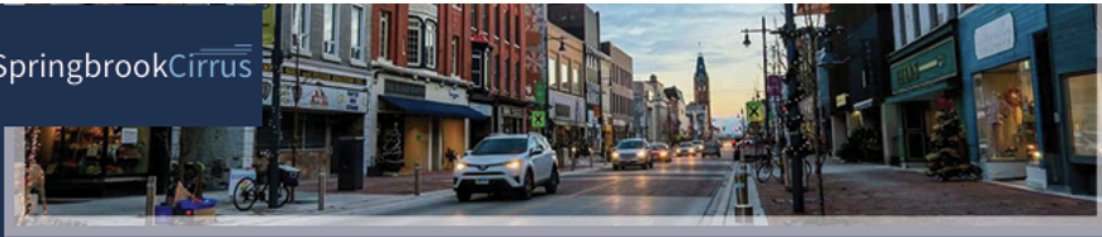
2019/2020 Wastewater Budget - Allocation Costs increased by \$360,743 or 75% from 2014/2015. Note PW salary FTE Increased by.5

Account Number	Description	2016-17 Actual	2017-18 Actual	2018-19 Adopted Budget	2018-19 Adjusted Budget	2018-19 Estimated Actual	2019-20 Adopted Budget
510-4402-4010	Salaries ¹ (2.3 FTE)	173,901	132,688	157,950	157,950	157,950	167,700
510-4402-4012	Overtime	6,618	5,214	7,000	7,000	7,000	10,000
510-4402-4013	Standby	9,636	5,775	10,000	10,000	10,000	10,000
510-4402-4100	Benefits ²	83,870	140,300	72,800	72,800	72,800	84,500
510-4402-4210	Contract Services	79,185	25,965	75,600	70,600	70,600	63,850
510-4502-4210	Subregional - Operation/Maintenance	1,006,065	1,024,400	1,070,515	1,070,515	1,070,515	1,026,700
510-4502-4210	Subregional - Debt Service	512,678	570,280	603,900	603,900	603,900	594,500
510-4402-4330	Misc. Supplies / Services	61,674	34,717	69,250	64,750	64,750	73,000
510-4402-4360	Conservation Rebate Program	301	959	5,000	5,000	3,000	5,000
510-4402-4510	Conference & Training	7,472	168	3,000	3,000	3,000	3,000
510-4402-4515	Meetings & Travel	-	3,795	8,500	8,500	8,500	8,500
510-4402-4710	Utilities - Gas & Electric	46,911	36,294	41,100	41,100	34,200	50,000
510-4402-4711	Utilities - City	-	6,064	-	-	6,900	7,200
510-4402-4750	Telcommunications	1,932	2,158	3,550	3,550	3,550	3,750
510-4402-4996	Allocated Liability Insurance	12,026	5,810	15,900	15,900	15,900	14,000
510-4402-4997	Allocated Wrkrs Comp Insurance	-	9,628	9,800	9,800	9,800	17,800
510-4402-5100	Capital Outlay	-	21,849	32,700	32,700	32,700	46,400
510-9971-6100	Infrastruture Lease - Principal	37,604	41,386	43,418	43,418	43,418	43,418
510-9971-6200	Infrastruture Lease - Interest	25,338	21,554	19,523	19,523	19,523	19,523
510-9974-6100	Vacuum Truck Lease - Principal	12,593	25,186	26,193	26,193	26,193	26,193
510-9974-6200	Vacuum Truck Lease - Interest	1,492	2,976	1,976	1,976	1,976	1,976
510-0000-4999	Transfer to Sewer CIP	-	-	-	-	-	45,000
Total Operation		2,079,296	2,117,166	2,277,675	2,268,175	2,266,175	2,322,010
510-1001-4998	G & A Allocation - City Council	31,816	27,522	30,665	30,665	30,665	34,379
510-1101-4998	G & A Allocation - City Manager	35,588	36,740	43,640	43,640	43,640	44,960
510-1201-4998	G & A Allocation - City Attorney	4,111	4,081	4,301	4,301	4,301	4,425
510-1301-4998	G & A Allocation - City Clerk	18,013	18,283	20,379	20,379	20,379	22,570
510-1401-4998	G & A Allocation - Finance	212,826	291,658	329,459	340,559	340,559	371,785
510-2102-4998	G & A Allocation - Planning	12,258	13,368	15,333	15,333	15,333	15,956
510-2202-4998	G & A Allocation - Building	31,016	30,192	33,943	33,943	33,943	41,132
510-2302-4998	G & A Allocation - Engineering	73,956	79,814	79,730	79,730	79,730	88,116
510-4102-4998	G & A Allocation - PW Corp Yard	124,253	148,673	155,698	155,698	155,698	159,565
510-4106-4998	G & A Allocation - PW Govt Bldg	21,210	23,910	24,006	24,006	24,006	30,281
510-0000-4998	G & A Allocation - Non Departmental	24,838	21,717	20,281	20,281	20,281	24,264
Total G & A Cost Allocation		589,885	695,958	757,435	768,535	768,535	837,433
TOTAL DEPARTMENT		2,669,181	2,813,124	3,035,110	3,036,710	3,034,710	3,159,443

¹ Salaries: Includes base pay, longevity pay, education incentive pay (when applicable).

² Benefits: Includes PERS retirement, health, dental, vision, medicare, short-term, long-term disability

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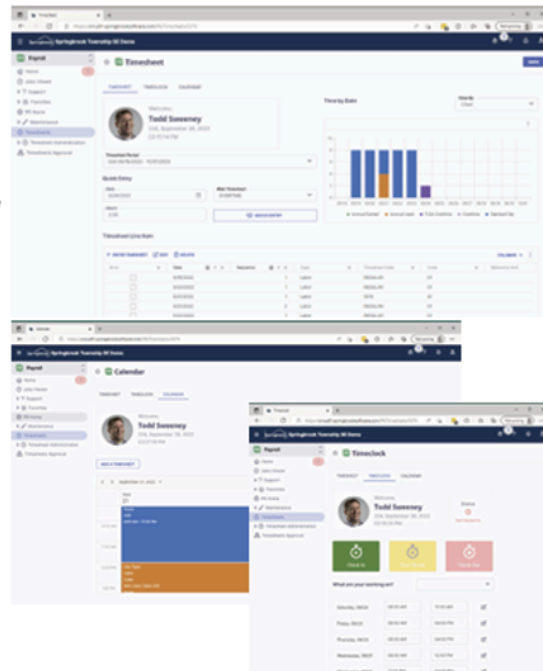
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Fund to cover City expenses for each item associated with the cost allocation plan in a simple spreadsheet.

Department	NEW COST PLAN					
	FY24-25			FY25-26		
	Water	Wastewater	Total	Water	Wastewater	Total
City Council	50,209	52,465	102,674	49,767	54,891	104,658
City Manager	129,411	150,817	280,228	128,272	157,791	286,063
City Attorney	70,129	114,458	184,587	69,512	119,751	189,263
ACW City Clerk	38,434	62,728	101,163	38,096	65,629	103,725
Admin Svs (Finance)	306,241	323,159	629,400	303,546	338,103	641,649
Public Works - Engineering	92,548	89,999	182,548	91,734	94,161	185,895
Public Works	157,315	108,077	265,393	155,931	113,075	269,006
Non-Departmental	8,575	7,230	15,805	8,500	7,564	16,064
Total	852,863	908,934	1,761,797	845,358	950,965	1,796,323

For a deeper explanation and additional context on how the cost allocation works, please refer to the memo titled "Understanding the City Attorney Cost Allocation"

This is the current model Costs Allocation Model. Cost Allocation Fees are a distinct line item in the Water and Sewer budgets. Cost Allocation is IN ADDITION to direct billed costs such as Public Works Salaries and the Santa Rosa Sewage Processing. The model has several issues which need to be resolved per Prop. 218 and Prop. 26.

- 1) City Council: Prop. 218 generally forbids City Council costs to be passed through to ratepayers. In addition, Council spends less than 4% of its time on Water and Sewer (the exception is Council Member Carter). City Council time must be tracked per Prop. 26.
 - a. Proposition 218 does not allow for general City Council costs to be billed to utility ratepayers. It strictly prohibits using property-related fees—such as water, sewer, and trash—for purposes other than providing the service. Fees must reflect the direct, proportional cost of providing that specific service to the parcel.
- 2) City Manager: City Manager pass through costs must be directly related to Utility Management. The City Manager should track their time so that this is an accurate amount.
 - a. Proposition 218 generally prohibits billing City Manager costs or other general government overhead to utility ratepayers. It restricts fees to the **actual cost of providing the service**, prohibiting charges for general services like police, fire, or administrative overhead unrelated to the service (e.g., water, sewer).
- 3) Contract City Attorney: All contract services must be direct billed.
 - a. Proposition 218 generally prohibits marking up contract services for profit. Under Proposition 218, property-related fees—including those for contracted services—cannot exceed the proportional cost of providing the service. Fees must directly reflect the cost of service, preventing local governments from generating profit or covering unrelated expenses.

- b. \$184,587 for legal fees for FY 2024/2025. Records still show that only \$13,850 were billed by attorneys for services rendered to Enterprise Funds.
 - c. For FY 2025-2026 \$189,263 was allocated. I have requested the attorney bills and thus far it is \$9651.50.
- 4) City Clerk: General Government Overhead cannot be passed on to Ratepayers.
City Clerk time must be tracked per Prop. 26.
- a. Proposition 218 generally prohibits passing "city clerk services" or other general government overhead costs through to ratepayers. Under Prop 218 (California Constitution Art. XIII D), fees for property-related services, such as water or sewer, cannot exceed the proportional cost of providing that specific service.
- 5) Admin/Financial Services: The allocation needs to be reduced to represent accurate employee FTE or the billing service needs to be outsourced to reflect competitive pricing. The 2014 Allocation amount was never reduced when staffing increased in 2015 and 2106. Number of utility bills stayed the same but staffing increased. Finance costs have risen over 300% even though the amount of bills has remained the same. Correct allocation is .75 FTE for Water and .75 FTE for Sewer.
- 6) Public Works: Engineering – Engineer is contract and needs to be direct billed. The Engineering tech is billed via the Public Works Yard Cost allocation plan. We have no Engineering Department. Therefore, it can't be allocated.
- a. Per City Data, the City made a \$588,057 profit from ratepayers (FY 2021-2024)
- 7) Public Works: The current direct billed salaries are 3.5 FTE for Water and 3.1 FTE for Sewer. In addition, Public Work salaries are also included in the Cost Allocation Plan. This includes Public Works Director, Engineering Tech and some Public Works Labor and is about 1 FTE for Water and 1 FTE for Sewer. This brings the total of FTE attributed to Water to 4.5 FTE and 4.1 FTE For Sewer.
- a. This needs to be reviewed as it is clear that Public Works is not spending 71% (8.6 FTE out of 12 FTE) on Water and Sewer. Employees need to track their time in order to get accurate data on how much time is spent on Water and Sewer.
 - b. Recent time tracking shows 30-40%% of Public Works Time spent on Water and Sewer. Using the spreadsheet submitted by Eric Billing, a total of 1103 hours over a 29 day period was spent on Water and Sewer, which average a total of 38 hours per day. Out of 100 hours per day, that is 38 percent of time spent by labor on Water and Sewer. That is 3.8 FTE between Water and Sewer as each 10 hours represents 1 FTE.

Time Tracking is Essential for Prop. 218 Compliance.

“Cities ensure Proposition 218 compliance—which requires that fees for property-related services do not exceed the cost of providing them—by using automated, digital time-tracking systems to precisely allocate employee hours to specific, fund-restricted services. These systems use [digital time-tracking software](#) to create auditable, timestamped records, ensuring that personnel costs charged to specialized funds (like water or sewer) are verified and compliant.”

Agenda Item Number 4

Work Assignments		
Date:	Water	Sewer
1/5/2026	19	12
1/6/2026	16	15
1/7/2026	18	16
1/8/2026	17	14
1/12/2026	17	25
1/13/2026	15	19
1/14/2026	15	19
1/15/2026	15	19
1/20/2026	21	20
1/21/2026	42	15
1/22/2026	30	13.5
1/26/2026	22	19
1/27/2026	20	14
1/28/2026	24	12
1/29/2026	16	17
2/2/2026	23	17
2/3/2026	17	23
2/4/2026	19	21
2/5/2026	16	6
2/9/2026	15	9
2/10/2026	14	40
2/11/2026	12.5	33
2/17/2026	15	27
2/18/2026	19	41
2/19/2026	16	27
2/23/2026	16	18
2/24/2026	23	18
2/25/2026	25	9
2/26/2026	22	5

Public works hours tracked by Eric Billing.

EFOC – Finance Sub Committee

- Financial analysis of Water & Sewage Funds within Cost Allocation-City of Sebastopol
- By Kate Haug & Mary Meihaus



- Historical List of Finance Department Costs Allocated to Water and Sewer. Note there is a 200% increase of allocated overhead from FY 2015 to FY 2023, 8 Year Period, even though the number of customers and utility bills remain static.** Note significant increase AFTER SmartMeters are installed even though cost savings was promoted as reason for increasing Enterprise Fund Expenses for Syserco Loan.

3. A list by year of Finance Department Fees allocated to the Cost Allocation Plan

	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Water	Admin Svs (Finance)	155,541	171,860	218,500	283,880	326,335	361,733	355,882	463,197	461,983	471,000
Sewer	Admin Svs (Finance)	151,448	167,388	212,826	276,410	317,747	352,212	346,516	451,007	449,826	461,000

Historical List of Legal Charges

- From Adopted Budget, Legal Fees for 2014/2015 & 2015/2016 were:

Expenditure Allocations 2014/2015

Pg	Department	General Fund	Water Fund	Sewer Fund	Sales T/U Tax	Gas Tax Fund or Park In Lieu	Grants or Other Funding	Total
22	City Council	178,051	22,711	26,496	4,800			232,058
24	Cittaslow	18,000						18,000
30	City Manager	102,517	34,173	34,173	5,500			176,363
32	City Attorney	192,385	10,456	6,273				209,114
35	City Clerk	186,502	17,553	15,359	18,000			237,414
38	Finance	97,155	147,677	143,791	4,800			393,423

ALL FUND EXPENDITURES ALLOCATION

Department	General Fund	Water Fund	Sewer Fund	Gas Tax Fund	Grants or Other Funding	Total
Projected Revenue	7,765,531	2,079,908	3,035,000	173,600	1,356,060	14,410,099
City Council	183,737	24,979	29,142			237,858
Cittaslow	20,000					20,000
City Manager	154,877	37,292	37,292			229,461
City Attorney	129,168	7,020	4,212			140,400
City Clerk	223,834	20,690	18,104			262,628
Finance	124,340	180,332	175,586			480,258

Summary

PRA	Cost Allocation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
#1 thru #4	City Attorney - Water	N/A - Data in Legacy System		6,851	6,802	5,472	7,466	7,752	12,938	16,341	32,262
	City Attorney - Wastewater			4,111	4,081	3,282	4,478	4,652	7,762	9,805	19,356
	Total Enterprise Allocation			10,962	10,883	8,754	11,944	12,404	20,700	26,146	51,618

- From a Public Records request, attorney's fees range from \$8754 to \$51,618 from FY 2017 to 2024. In FY 2024/2025 \$184,587 was charged to Ratepayers for legal fees. FY 2025-2026 \$189,263 was allocated. **There are no significant legal challenges to the Water or Sewer activities which would warrant a 250% increase.** Note: Attorney services are contracted and would have invoices to match services. No invoices have been produced that match these fees.

Email Correspondence with Finance Director Kwong re: Audited v. Actual Budgets and the Cost Allocation Plan:

- Director Kwong's Statement
- Perhaps the grid below may be helpful in illustrating this inquiry. Up until FY 2024–25, the City has annually true-up the cost allocation plan using actual, audited expenditures. Any variance between budgeted allocations and actual costs was addressed through this annual true-up process as you can see in highlighted yellow. I am providing the Finance Department as an initial example to confirm that this approach meets your needs before proceeding with other departments.
- With the current cost allocation plan approved by the City Council, no separate true-ups were performed for FY 2024–25 or FY 2025–26 and cost allocation happens based on the adopted budget. However, the FY 2026–27 cost allocation plan (the Option A placeholder, as discussed by the Budget Committee and the Enterprise Fund Oversight Committee) is based on FY 2024–25 actual expenditures, which effectively serves as the true-up for FY 2024–25.


		Prior Method - Flat Percentage										
		FY20/21		FY21/22		FY22/23		FY23-24		FY24-25	FY25-26	FY26-27
		Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	Adopted Budget	Year End Actual	New Method		
	% Alloc	1,057,025	936,498	1,344,290	1,218,939	1,362,180	1,215,745	1,337,680	1,259,963	1,303,522	1,411,268	1,353,783
Finance - Water	38%	401,670	355,869	510,830	463,197	517,628	461,983	508,318	478,786	306,241	303,546	280,177
Finance - Sewer	37%	391,099	346,504	497,387	451,007	504,007	449,826	494,942	466,186	323,159	338,103	323,628
Total		792,769	702,374	1,008,218	914,204	1,021,635	911,809	1,003,260	944,972	629,400	641,649	603,805

Kate Haug Response

- How is the difference between the Adopted and Actual Budget reconciled? For instance, for 20/21, the General Fund owes the Enterprise Fund \$90.395 for the difference between Adopted and Actual Budget. Does the General Fund make a transfer for the \$90,395 back to the Enterprise Funds to reconcile the difference?



-
- Cost Allocation Fees are the costs associated with supporting City Employees who work on Water and Sewer. These fees include office supplies, toilet paper, utilities, computer software and other costs associated with hosting an employee in an office. Contractors include their office expenses in their billing and are reflected on their invoices paid by the City. Therefore any person who is a contractor should not be in the Cost Allocation Plan. All contractors should be direct billed.

WATER OPERATING FUND JANUARY - MARCH 2026 QUARTER 3 REPORTING						
						
Description	2024-25 Actual	Y-T-D Actual 3/31/25	2025-26 Adopted Budget	2025-26 Adjusted Budget	Y-T-D Actual 3/31/26	% of Adjusted Budget
OPERATING REVENUE						
Usage Charges - Residential	1,782,411	1,311,446	1,764,321	1,764,321	1,208,485	68.5%
Usage Charges - Commerical	1,429,003	1,060,010	1,510,087	1,510,087	948,292	62.8%
Usage Charges - Water Tower	45,047	33,964	54,500	54,500	37,764	69.3%
Interest Income	45,171	46,642	75,000	75,000	18,513	24.7%
New Service Fee	10,200	7,800	10,000	9,600	6,750	70.3%
Penalties	22,067	18,329	20,000	21,375	17,607	82.4%
Miscellaneous Income	45,965	874	44,000	44,600	800	1.8%
TOTAL REVENUE	3,379,864	2,479,065	3,477,908	3,479,483	2,238,212	64.3%
OPERATING EXPENDITURE						
Salaries & Wages <small>This is one set of Salaries and Wages which includes Public Works</small>		268,227	370,268	384,513	296,297	77.1%
Benefits	282,390	158,366	244,830	233,946	206,249	88.2%
Contracted Services <small>All Contract Services Should be HERE not in Cost Allocation Plan</small>	159,241	101,997	340,750	319,470	225,005	70.4%
Services & Supplies	195,954	140,966	244,000	219,990	112,674	51.2%
Conference & Training Expense	4,439	4,197	5,000	5,000	2,547	50.9%
Utilities	235,947	192,460	317,350	317,350	188,397	59.4%
Allocated Insurance	81,510	59,646	104,755	104,755	78,567	75.0%
Capital Outlay	-	-	267,500	160,500	11,988	7.5%
Debt Service Payments <small>Everything above Cost Allocation is direct billed</small>	461,365	277,508	252,657	252,657	245,349	97.1%
Cost Allocation Plan <small>This is additional PW salaries and allocated expenses</small>	52,863	639,647	845,358	845,358	634,019	75.0%
Transfers Out	50,230	25,322	115,000	115,000	50,075	43.5%
TOTAL EXPENDITURES	2,683,266	1,868,336	3,107,468	2,958,540	2,051,165	69.3%
Net Surplus/(Deficit)	696,597	610,729	370,440	520,943	187,046	

Moving forward all salaries should be included in Salaries and Wages. All Contracted Services should be in Contracted Services. Administrative costs included in the Cost Allocation plan need to correspond to Time Tracking. Only costs that can be tracked to Water Service can be put into Cost Allocation Plan. Administrative costs should include any contractor management and invoice processing.
 The difference between CAP Transfers OUT of the Water Enterprise Funds must be reconciled with the Actual Audited Expenses via transfer.

Cost Allocation Comparisons

- 2014/2015 Cost Allocation Breakdowns which clearly show what percentages of City Administration are allocated to Water Enterprise and Sewer Enterprise:

**Fiscal Year 2014/2015
Staffing Allocations**

Agenda Item Number 5

Description	Number of Employees	--- Percent of Time Allocated by Fund ---				
		General Fund	Water Enterprise	Sewer Enterprise	Gas Tax	TOTAL
<u>CITY COUNCIL</u>						
Councilmembers	5	74%	12%	14%		100%
Video Recorder	1	74%	12%	14%		100%
Total	6					
<u>CITY MANAGER/ CLERK</u>						
City Manager *	1	60%	20%	20%		100%
City Clerk	1	85%	8%	7%		100%
Total	2					
<u>CITY ATTORNEY</u>						
City Attorney *	1	92%	5%	3%		100%
Total	1					
<u>FINANCE</u>						
Director	1	33%	34%	33%		100%
Junior Accountant	1	33%	34%	33%		100%
	2	33%	34%	33%		100%
Total	3					
<u>BUILDING</u>						
Building Official	1	74%	13%	13%		100%
Admin Asst - Fire Station **	.60	74%	13%	13%		100%
Total	1.50					
<u>COMMUNITY DEVELOPMENT</u>						
Engineering Director	1	33%	34%	23%	10%	100%
Part-time City Engineer	.50	33%	34%	23%	10%	100%
Admin Asst - Corp Yard ***	.50	33%	34%	23%	10%	100%
Planning Director	1	92%	5%	3%		100%
Assistant Planner	.85	92%	5%	3%		100%
Admin Asst - Planning	.76	92%	5%	3%		100%
Total	4.61					
<u>FIRE</u>						
Fire Chief	1	97%	3%			100%
Volunteers	30	97%	3%			100%
Admin Asst - Fire Station **	.40	97%	3%			100%
Total	31.40					

Current Cost Allocation

- Current Allocation Structure which shows a dramatic increase in Council Time and City Clerk Time allocated to Enterprise Funds without any data to back it up. In 2014/2015 City Attorney was inhouse and was allocated at 8%. In 2025, Attorney is Contract and allocated at 29%.
- Contract attorney should be direct bill and there is no justification for a significant increase.

Table: Proposed allocation as a % of Department Budgets

	FY25-26 Cost Allocation	26-27 Proposed Budget	% of Budget
City Council	\$ 104,658.00	\$ 171,408	61%
City Manager	\$ 286,063.00	\$ 594,766	48%
City Attorney	\$ 189,263.00	\$ 643,750	29%
City Clerk	\$ 103,725.00	\$ 282,477	37%
Admin Svs(Finance)	\$ 641,649.00	\$ 1,512,645	42%
	\$ 1,325,358.00	\$ 3,205,046	41%

2014/2015 Budget Shows 3.5 FTE attributed to Public Works

	Total	33					
<u>PUBLIC WORKS</u>							
Superintendent	1	100%					100%
Assistant Superintendent	1	40%	40%	20%			100%
Water Treatment Operator	1	0%	50%	25%	25%		100%
Senior Maint Worker	1	0%	30%	50%	20%		100%
Maintenance Worker III	1	0%	50%	20%	30%		100%
Maintenance Worker II	2	30%	20%	20%	30%		100%
Maintenance Worker I	1	40%	20%	20%	40%		100%
Laborer	4	80%	0%	0%	20%		100%
Admin Asst - Corp Yard **	.50	100%					100%
<hr/>							
	Total	12.50					

Total of 3.25 FTE Public Works Direct Billed to Water and Sewer. 5th column is percentage paid by Gas Tax. 2nd column is paid by General Fund

Note: PW salary 2.5 FTE

City of Sebastopol
2014/2015 Budget Expenditures

Account No. 510-6510
Department: Water Operations

Object	Description	2011/2012 Actual Expenditures	2012/2013 Actual Expenditures	2013/2014 Budgeted Expenditures	2013/14 Expenditures YTD to 6/5/14	2014/2015 Department Request
6010	Salaries (Includes 2.50 FTE)	151,574	155,197	153,183	138,347	178,986
6011	Standby	9,395	8,237	8,237	8,708	8,237
6020	Overtime	1,487	780	4,025	3,982	3,510
6023	Benefits	69,650	73,291	78,800	78,800	81,720
PERSONNEL COSTS SUBTOTAL		232,106	237,505	244,245	229,837	272,453
6025	Communications	3,300	2,500	3,900	3,300	3,900
6050	Misc. Supplies / Services *	64,111	69,395	85,820	78,025	94,820
6060	Training	1,256	1,600	1,600	760	2,100
6330	Utilities	94,743	105,000	150,000	89,762	150,000
6425	REMIF Liab., Prop. Flood Ins.	15,538	16,636	14,387	14,387	16,049
6806	Backflow Prevention Program	1,299	500	300	300	2,000
6807	Fire Hydrant Rplcmnt Program	8,093	9,000	15,000	14,424	15,000
6808	Meter Replacement Program	20,019	18,000	20,000	10,700	20,000
6860	Contract Services ** (see detail)	20,645	4,000	11,200	8,792	65,000
8020	Cal OSHA Safety Update	0	10,000	10,000	10,000	8,500
TOTAL OPERATING		\$461,110	\$474,136	\$556,452	\$460,287	\$649,822
Maintenance Outlay - Water Operations 510						
6537	Replace Cathodic Protection @ Reservoirs	0	2,617	0	0	0
6910	Generator (½ Cost)	0	0	800	800	0
6911	Soil/ & Asphalt Compactors (½ Cost)	0	0	2,560	2,779	0
6912	SCADA Component (½ Cost)	0	0	600	633	0
6954	Oil Storage Container	0	0	0	0	1,250
6955	2 Pickups (1/3 Cost Shared w/ Sewer & GF Streets)	0	0	0	0	22,000
6966	Well Improvements **	1,081	1,000	0	0	0
6968	Pressure Sensing Valve	6,632	0	0	0	0
7039	Well 8 Repairs	27,431	0	0	0	0
TOTAL CAPITAL		\$35,144	\$3,617	\$3,960	\$4,212	\$23,250
TOTAL DEPARTMENT		\$496,254	\$477,753	\$560,412	\$464,499	\$673,072

* and ** See next page for account details.



City of Sebastopol
2014/2015 Budget Expenditures

Note: PW Salary only Direct Billed - 1.75 FTE to Sewer

Account No. 420-6920
Department: Sewer Operations

Agenda Item Number 5

Object	Description	2011/2012 Actual Expenditures	2012/2013 Actual Expenditures	2013/2014 Budgeted Expenditures	2013/14 Expenditures YTD to 6/5/14	2014/2015 Department Request
6010	Salaries (Includes 1.75 FTE)	114,247	115,568	110,033	100,182	124,106
6011	Standby	9,636	8,448	8,448	8,932	8,448
6020	Overtime	1,237	800	3,432	3,396	3,600
6023	Benefits	51,606	54,987	57,065	57,065	59,155
PERSONNEL COSTS SUBTOTAL		176,726	179,803	178,978	169,575	195,309
6025	Communications	2,216	2,000	2,400	2,002	2,400
6049	Low Flow Toilet Rebates	900	1,000	1,300	1,425	1,300
6050	Misc. Supplies/ Services *	32,050	34,735	36,450	31,838	36,450
6060	Training	799	1,000	1,000	751	1,500
6310	Litigation Expense (Morris St)	29,435	10,000	0	0	0
6330	Utilities	24,018	24,500	28,900	26,018	28,900
6425	REMIF Liab., Prop, Flood Ins.	10,025	9,758	8,146	8,146	8,701
6860	Contract Services **	8,394	0	67,040	62,970	18,795
8020	Cal OSHA Safety Update	0	10,000	10,000	10,000	8,500
TOTAL OPERATING		\$284,563	\$272,796	\$334,214	\$312,725	\$301,855
Maintenance Outlay - Sewer Operations 420						
6910	Generator (½ Cost)	0	0	800	800	0
6911	Soil/Asphalt Compactor (½ Cost)	0	0	2,560	2,778	0
6912	SCADA Component (½ Cost)	0	0	600	633	0
6955	2 Pickups (1/3/ Cost Shared w/Water & GF Streets)	0	0	0	0	22,000
7012	Green Valley Pump Station	0	0	0	0	20,500
TOTAL CAPITAL		\$0	\$0	\$3,960	\$4,211	\$42,500
TOTAL DEPARTMENT		\$284,563	\$272,796	\$338,174	\$316,936	\$344,355

* and ** See next page for account details.



City of Sebastopol
2014/2015 Budget Expenditures

Account No. **510-6XXX-6005**
Department: **Water Administration Departmental Allocations**

<u>Object</u>	<u>Description</u>	<u>2011/2012 Actual Expenditures</u>	<u>2012/2013 Actual Expenditures</u>	<u>2013/2014 Budgeted Expenditures</u>	<u>2013/14 Expenditures YTD to 6/5/14</u>	<u>2014/2015 Department Request</u>
6010	City Council	10,646	12,378	21,047	17,539	22,711
6020	City Manager	41,231	31,565	33,432	27,860	34,173
6040	City Attorney	9,657	9,969	10,277	8,564	10,456
6021	City Clerk	10,991	11,926	15,196	12,663	17,553
6030	Finance	75,649	86,035	121,584	101,320	147,677
6120	Auditing / Non-Departmental	7,227	0	6,548	5,457	8,879
6280	Fire	16,931	16,694	17,312	14,427	43,849
6050	Planning	11,583	14,546	16,861	14,051	18,007
6290	Building	25,650	25,970	27,723	23,102	28,698
6300	Engineering	85,214	80,206	105,374	87,812	97,909
6310	Corporation Yard	132,622	135,113	149,354	124,462	161,436
6060	Government Buildings	10,581	9,370	10,933	9,110	12,871
6130	Village Mobile Home Park	2,790	6,030	5,400	4,500	5,400
TOTAL ALLOCATIONS		\$440,772	\$439,802	\$541,041	\$450,867	\$609,619

NOTE: No Public Works Salaries in Cost Allocation Plan. All are Direct Billed



City of Sebastopol
 2014/2015 Budget Expenditures

Account No. 420-6XXX-6005

Department: Sewer Administration Departmental Allocations

<u>Dept</u>	<u>Description</u>	<u>2011/2012 Actual Expenditures</u>	<u>2012/2013 Actual Expenditures</u>	<u>2013/2014 Budgeted Expenditures</u>	<u>2013/14 Expenditures YTD to 6/5/14</u>	<u>2014/2015 Department Request</u>
6010	City Council	12,421	14,441	24,555	20,462	26,496
6020	City Manager	41,231	31,565	33,432	27,860	34,173
6040	City Attorney	5,311	5,981	6,166	5,138	6,273
6021	City Clerk	9,617	10,435	13,297	11,080	15,359
6030	Finance	73,424	83,504	118,008	98,340	143,791
6120	Auditing / Non-Departmental	7,227	7,515	6,548	5,457	8,879
6050	Planning	11,583	8,728	10,117	8,431	10,804
6290	Building Inspection	25,650	25,970	27,723	23,102	28,698
6300	Engineering	57,645	54,257	71,282	59,402	66,232
6310	Corporation Yard	96,704	98,520	108,904	90,753	117,714
6060	Government Buildings	0	9,370	10,933	9,110	12,871
6130	Village Mobile Home Park	2,790	6,030	5,400	4,500	5,400
TOTAL ALLOCATIONS		\$343,603	\$356,316	\$436,365	\$363,635	\$476,690

NOTE: NO Public Works included in Cost Allocation. Attorney and Engineer are City Employees.

Budget Expenditures

- There is a dramatic increase in the Cost Allocation Budget from 2014/2015 to 2019/2020. A 66% increase for Water and a 75% increase for Wastewater with no explanation or data to support. See following charts:

**Detail - Wastewater Fund
Budget Expenditures**

2019/2020 Wastewater Budget - Allocation Costs increased by \$360,743 or 75% from 2014/2015. Note PW salary FTE Increased by .5

Agenda Item Number 5

Account Number	Description	2016-17 Actual	2017-18 Actual	2018-19 Adopted Budget	2018-19 Adjusted Budget	2018-19 Estimated Actual	2019-20 Adopted Budget
510-4402-4010	Salaries ¹ (2.3 FTE)	173,901	132,688	157,950	157,950	157,950	167,700
510-4402-4012	Overtime	6,618	5,214	7,000	7,000	7,000	10,000
510-4402-4013	Standby	9,636	5,775	10,000	10,000	10,000	10,000
510-4402-4100	Benefits ²	83,870	140,300	72,800	72,800	72,800	84,500
510-4402-4210	Contract Services	79,185	25,965	75,600	70,600	70,600	63,850
510-4502-4210	Subregional - Operation/Maintenance	1,006,065	1,024,400	1,070,515	1,070,515	1,070,515	1,026,700
510-4502-4210	Subregional - Debt Service	512,678	570,280	603,900	603,900	603,900	594,500
510-4402-4330	Misc. Supplies / Services	61,674	34,717	69,250	64,750	64,750	73,000
510-4402-4360	Conservation Rebate Program	301	959	5,000	5,000	3,000	5,000
510-4402-4510	Conference & Training	7,472	168	3,000	3,000	3,000	3,000
510-4402-4515	Meetings & Travel	-	3,795	8,500	8,500	8,500	8,500
510-4402-4710	Utilites - Gas & Electric	46,911	36,294	41,100	41,100	34,200	50,000
510-4402-4711	Utilites - City	-	6,064	-	-	6,900	7,200
510-4402-4750	Telccommunications	1,932	2,158	3,550	3,550	3,550	3,750
510-4402-4996	Allocated Liability Insurance	12,026	5,810	15,900	15,900	15,900	14,000
510-4402-4997	Allocated Wrkrs Comp Insurance	-	9,628	9,800	9,800	9,800	17,800
510-4402-5100	Capital Outlay	-	21,849	32,700	32,700	32,700	46,400
510-9971-6100	Infrastruture Lease - Principal	37,604	41,386	43,418	43,418	43,418	43,418
510-9971-6200	Infrastruture Lease - Interest	25,338	21,554	19,523	19,523	19,523	19,523
510-9974-6100	Vacuum Truck Lease - Principal	12,593	25,186	26,193	26,193	26,193	26,193
510-9974-6200	Vacuum Truck Lease - Interest	1,492	2,976	1,976	1,976	1,976	1,976
510-0000-4999	Transfer to Sewer CIP	-	-	-	-	-	45,000
Total Operation		2,079,296	2,117,166	2,277,675	2,268,175	2,266,175	2,322,010
510-1001-4998	G & A Allocation - City Council	31,816	27,522	30,665	30,665	30,665	34,379
510-1101-4998	G & A Allocation - City Manager	35,588	36,740	43,640	43,640	43,640	44,960
510-1201-4998	G & A Allocation - City Attorney	4,111	4,081	4,301	4,301	4,301	4,425
510-1301-4998	G & A Allocation - City Clerk	18,013	18,283	20,379	20,379	20,379	22,570
510-1401-4998	G & A Allocation - Finance	212,826	291,658	329,459	340,559	340,559	371,785
510-2102-4998	G & A Allocation - Planning	12,258	13,368	15,333	15,333	15,333	15,956
510-2202-4998	G & A Allocation - Building	31,016	30,192	33,943	33,943	33,943	41,132
510-2302-4998	G & A Allocation - Engineering	73,956	79,814	79,730	79,730	79,730	88,116
510-4102-4998	G & A Allocation - PW Corp Yard	124,253	148,673	155,698	155,698	155,698	159,565
510-4106-4998	G & A Allocation - PW Govt Bldg	21,210	23,910	24,006	24,006	24,006	30,281
510-0000-4998	G & A Allocation - Non Departmental	24,838	21,717	20,281	20,281	20,281	24,264
Total G & A Cost Allocation		589,885	695,958	757,435	768,535	768,535	837,433
TOTAL DEPARTMENT		2,669,181	2,813,124	3,035,110	3,036,710	3,034,710	3,159,443

¹ Salaries: Includes base pay, longevity pay, education incentive pay (when applicable).

² Benefits: Includes PERS retirement, health, dental, vision, medicare, short-term, long-term disability

**Detail - Water Fund
Budget Expenditures**

2019/2020 Water Budget. Cost Allocation Plan has increased by \$403,803 in 5 years - 66% increase. PW FTE direct billed salary remains steady 2.53 FTE

Agenda Item Number 5

Account Number	Description	2016-17 Actual	2017-18 Actual	2018-19 Adopted Budget	2018-19 Adjusted Budget	2018-19 Estimated Actual	2019-20 Adopted Budget
500-4402-4010	Salaries ¹ (2.58 FTE)	238,630	194,336	240,400	240,400	240,400	236,300
500-4402-4011	Salaries - Part Time	-	-	25,000	25,000	25,000	25,000
500-4402-4012	Overtime	7,759	7,864	10,000	10,000	10,000	10,000
500-4402-4013	Standby	9,488	7,781	10,000	10,000	10,000	10,000
500-4402-4100	Benefits ²	105,398	125,721	112,200	112,200	112,200	123,100
500-4402-4210	Contract Services	63,113	164,870	88,800	116,800	116,800	108,900
500-4402-4330	Misc. Supplies / Services	118,088	116,132	140,750	136,250	136,250	136,100
500-4402-4361	Meter Replacement Program	18,458	14,756	21,000	21,000	21,000	21,000
500-4402-4365	Fire Hydrant Replacement Program	15,026	12,647	15,750	15,750	15,750	15,750
500-4402-4366	Backflow Prevention Program	2,050	2,707	3,150	3,150	4,200	4,500
500-4402-4510	Conference & Training	8,064	210	3,000	3,000	3,000	3,000
500-4402-4515	Meetings & Travel	-	4,343	6,000	6,000	6,000	6,000
500-4402-4750	Telecommunications	5,324	4,957	6,550	6,550	6,550	6,750
500-4402-4710	Utilites - Gas & Electric	131,352	144,236	162,000	162,000	164,000	196,000
500-4402-4996	Allocated Liability Insurance	19,079	11,053	24,350	24,350	24,350	28,500
500-4402-4997	Allocated Wrkrs Comp Insurance	-	13,222	15,000	15,000	15,000	17,700
500-4402-5100	Capital Outlay	-	4,375	36,200	194,200	194,200	55,800
500-9971-6100	Infrastrutture Lease - Principal	42,300	46,556	48,841	48,841	48,841	51,239
500-9971-6200	Infrastrutture Lease - Interest	28,500	24,247	21,961	21,961	21,961	18,321
500-9973-6100	CREBS Solar Panel Lease - Principal	31,023	31,024	31,024	31,024	31,024	31,024
500-9974-6100	Vacuum Truck Lease - Principal	6,296	12,596	13,096	13,096	13,096	13,392
500-9974-6200	Vacuum Truck Lease - Interest	745	1,490	988	988	988	691
500-0000-4999	Debt Service - Water Capital	-	283,817	176,068	176,068	176,068	146,771
500-0000-4999	Transfer to Capital Project	-	31,844	-	-	-	45,000
Total Operation		850,693	1,260,784	1,212,128	1,393,628	1,396,678	1,310,838
500-1001-4998	G & A Allocation - City Council	29,987	23,590	26,284	26,284	26,284	29,468
500-1101-4998	G & A Allocation - City Manager	35,588	36,740	43,640	43,640	43,640	44,960
500-1201-4998	G & A Allocation - City Attorney	6,851	6,802	7,168	7,168	7,168	7,375
500-1301-4998	G & A Allocation - City Clerk	20,586	20,895	23,290	23,290	23,290	25,794
500-1401-4998	G & A Allocation - Finance	218,500	296,901	338,363	349,763	349,763	381,834
500-2102-4998	G & A Allocation - Planning	20,431	22,280	25,555	25,555	25,555	26,593
500-2202-4998	G & A Allocation - Building	31,016	30,192	33,943	33,943	33,943	41,132
500-2302-4998	G & A Allocation - Engineering	89,804	96,917	96,815	96,815	96,815	106,998
500-3102-4998	G & A Allocation - Fire	57,113	67,300	61,451	61,451	61,451	75,891
500-4102-4998	G & A Allocation - PW Corp Yard	170,404	203,894	213,528	213,528	213,528	218,832
500-4106-4998	G & A Allocation - PW Govt Bldg	21,210	23,910	24,006	24,006	24,006	30,281
500-0000-4998	G & A Allocation - Non Departmental	24,837	21,717	20,281	20,281	20,281	24,264
Total Department Cost Allocation		726,327	851,138	914,324	925,724	925,724	1,013,422
TOTAL DEPARTMENT		1,577,020	2,111,922	2,126,452	2,319,352	2,322,402	2,324,262

Agenda Item Number 5

City Council Meeting Packet for June 2, 2026

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Top 4 Finance Committee Recommendations

- **1. Recommended Cost Allocation Plan: NONE OF THE CURRENT SCENARIOS**
- **2. Implement Time Tracking Software for Employees to Record Time. There are many applications that charge a small monthly fee for time tracking. Time tracking is the way to avoid lawsuits and to bill Water and Wastewater correctly and to be most Prop. 218 and Prop. 26 compliant.**
- **3. Remove Tiered Water Pricing and do not raise water prices until the new Cost Allocation Model supported by time tracking is in place. This has no impact on the General Fund.**
- **4. Refund Enterprise Funds \$350,354 for excessive Attorney Fees for 24/25 and 25/26. There is no data to justify charged amounts. No invoice records, no historical precedent, no reasonable comparison to other districts.**

DRAFT

**Enterprise Fund Oversight Committee
May 2026 Progress Report to Sebastopol City Council**

The Committee has taken walking tours of water and sewer facilities, met with public works staff and consultants, reviewed sewer/water masterplan, and scrutinized the Enterprise Fund budget. Representing ratepayers, our goals include assuring adequacy, safety, and capacity of water/sewer infrastructure, legal compliance, public transparency, and planning for long-term capital needs.

Committee Recommendations

1. Conduct study for purposes of accurately/fairly/reasonably allocating staff time/city overhead charges to the Enterprise Fund (in accordance with Prop 218 requirements).

The current allocation formulas are based on estimates developed ten years ago and have not been updated or adjusted to reflect changes. The Committee believes the current cost allocation methods may not survive legal challenge. The Committee also believes the City has historically overcharged the Enterprise Fund for city 'overhead' (possibly by as much as \$1 million in 2026/27). Areas of overcharge concern include legal, contract, finance and admin services, city council, and vacant positions. Any overcharge starves the Enterprise Fund of money for vital capital improvement projects.

2. Complete and fully implement new cost allocation (based on study above) in 2027/28 city budget.

3. Set aside any 'savings' realized from the study (above) and reserve for capital improvement projects.

Costs for capital improvement projects exceed current income projections (based on current cost allocation deductions from Enterprise Fund). Any 'savings' realized by reducing overhead charges to the Enterprise Fund should be earmarked for capital improvement projects.

4. City staff should continue to seek and exhaust all grant opportunities for water/wastewater capital improvement projects but should not expect or rely on grants.

The city should set aside enough money each year to avoid drastic rate increases, bond measures, or parcel tax to pay for capital improvement projects.

5. Request staff to identify sources of wet weather inflow and infiltration into sewer system. Prioritize and implement sewer upgrades or operational improvements to reduce rainfall intrusion.

Flow at the Morris Street pump station increases dramatically during storms (by almost 4x's). Stormwater runoff does not need to be pumped or treated. Costs for pumping (electric) and treatment costs at Llano facility increase proportionately during rainfall events. Reducing rainwater intrusion will save hundreds of thousands of dollars annually and will reduce wear-and-tear maintenance costs.

6. Implement an Ordinance and instruct staff to enforce the removal of any household rainwater hookups to sewers.

7. Implement an accounting policy and system to add credit card bank fees to water/sewer bills.

When customers pay water/sewer bills with a credit card, banks charge the city a 2-3% fee. The city currently absorbs these bank fees which cost nearly \$100,000 per year.

INFRASTRUCTURE / OPERATIONS AD HOC SUBCOMMITTEE REPORT
Ad Hoc Committee to the Enterprise Fund Oversight Committee (EFOC)
Dated: May 10, 2026

Infrastructure/Operations Ad Hoc Subcommittee of the Enterprise Fund Oversight Committee report out.

Executive summary of findings for city council

Water: The city aquifers are deep and well stocked, with some naturally occurring arsenic in the southernmost wells which is processed out and mixed with other city well water. Water is electrically pumped from these aquifers uphill to the two storage tank locations on the west of the city. Gravity is then used to provide water pressure.

While the city currently has adequate water supply, our aquifer pumps do not currently reach deep enough to take advantage of greater supply, and the well pumps are only in adequate mechanical shape. The city's most important and heavily relied on well, pump 4 at the fork of Main and Petaluma, must be replaced and relocated. This site is also where substantial filtration for water quality occurs.

Most of the pipework is in adequate condition, some cast iron junctions are points of failure at EOL and need to be replaced.

Sewer: Much of the gravity fed sewer pipes are clay short sections with leaky joins. A small amount of the pipe has been replaced with PVC, more of this replacement needs to happen. The system is not well sealed, resulting in ingress of run-off water during winter rains. Sewage is pumped from the Morris street substation to the Llano Road vortex where it is processed by Santa Rosa at cost by volume. This substation is in good condition.

Because storm water enters the sewer system, ratepayers are paying for the processing of substantial extra sewage volume during the wet months. This infrastructure is in poor condition and not fit for purpose of supporting increased housing and commercial development without significant upgrade. Public works staff spend significant time pumping out with two pump trucks and keeping the system patched up and running.

Energy costs: Are significant with PGE electrical charges for operating the wells and sewer pump(s).

Staffing: 10 staff in **public works** working 10-hour shifts split between the general and enterprise fund, with specialists in water and sewer who sometimes have to be pulled away from infrastructure operations to clean up after homeless, vandalism of water supply etc.

While not in the scope of this committee, our poor-quality **road surfaces** arguably contribute to undersurface pipe deterioration and damage due to vibration and uneven load distribution.

INFRASTRUCTURE / OPERATIONS AD HOC SUBCOMMITTEE REPORT
Ad Hoc Committee to the Enterprise Fund Oversight Committee (EFOC)
Dated: May 10, 2026

Also, not in scope but relevant are **storm drains** which are general fund. This system is in poor condition and has major issues with pipe blockage. Because it is causing storm water spills into sewer lines this is creating additional enterprise fund expense.

Our subcommittee Recommendations to City Council:

1. Receive and file the full Infrastructure/Operations Ad Hoc Subcommittee report, including all supporting data from:
 - Infrastructure recorded walking tours (video links attached)
 - Sewer Master Plan repair priorities
 - Tracked Public Works staff hours (water vs. sewer)
 - Morris Street pump station flow rates and electrical usage during rainfall events
 - Water quality analysis
2. Direct staff to incorporate the subcommittee's findings and prioritize recommendations into:
 - The Sewer System Master Plan Update (currently being prepared by GHD Inc).
 - The Water System Master Plan Update (currently being prepared by GHD Inc).
 - The FY 2026-27 Capital Improvement Plan (CIP), with particular emphasis on **the highest-priority sewer line repairs and pump station improvements**
 - Future budget development and ongoing operational reporting to the EFOC
3. Prioritize funding in the FY 2026-27 CIP and future budgets for the top-priority sewer main rehabilitation projects identified in the Master Plan and during field tours.
4. Prioritize funding in the FY 2026-27 CIP and future budgets for the top-priority sewer main rehabilitation projects identified in the Master Plan and during field tours.
5. Direct Public Works staff to implement improved tracking and reporting of maintenance staff time allocation between water and sewer systems. This will better support accurate cost allocation and Proposition 218 compliance.
6. Request staff to evaluate and report back on potential upgrades or operational improvements at the Morris Street pump station to reduce inflow and infiltration (I&I) during wet weather events. This will help lower long-term treatment and energy costs.

INFRASTRUCTURE / OPERATIONS AD HOC SUBCOMMITTEE REPORT
Ad Hoc Committee to the Enterprise Fund Oversight Committee (EFOC)
Dated: May 10, 2026

Report

Aquifer, wells and water supply

All the wells are drawing from the same Wilson Grove aquifer beneath the city. The vast aquifer has different geographical areas requiring different treatments. The southern area has natural (not pollution caused) arsenic which requires treatment at wells 6 and 7 before distribution.

All four city wells are located south of 12/Bodega

Well 4 is the oldest well and the main work horse for the city, producing 40% of supply/1000 gallons per minute/400 feet deep. This well has substantial filtration systems for sand, past dry cleaning fluids and gas station pollution mitigation. This well is nearing end of life and is a major CIP concern.

Well 4 needs to be redrilled at least 50 feet away from the current well with a new pump. The pump is above ground so easier to work on than the other well pumps, which are all submerged.

Well 8 (corner of Jewell Avenue) was made more technically efficient as part of the Syserco project but is shallow and can only be run for 2 hours at a time, then takes 2 hours to refill, needs to be drilled deeper. Well 6 is located behind El Coronel restaurant, pumping and filtering the natural arsenic.

Well 7 is at the extreme south of the city east of 112 and also filters arsenic. (Well 5 is not used and has long been out of service).

The water supply works by well pumps surfacing aquifer water which is pumped to two large city reservoir locations on the west side of the city at Pleasant Hill Road (newer 1980's tanks) and 1st street (slightly older).

The pumps work on a demand system, only scheduled to run in order to keep the reservoirs full. There is enough water for seven days supply in these tanks if the pumps are not working. The reservoirs are inspected and cleaned internally every five years. (Next year is inspection time again).

When you turn on a faucet sometimes water is pumping west en route to fill the reservoirs. Once the reservoirs are full the water is gravity fed back down into the city and the pumps are not operating. There are two water zones. Well 4 and 7 fill the 1st street reservoir, well 6 and 8 fill pleasant hill. Water is blended/mixed once in the underground pipe infrastructure.

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Water pressure. The fire hydrants have different color-coded zones. Most are blue/1500 gallons per minute. In the area around Dowd Drive the hydrants are green denoting lower flow. The water pressure for the city is acceptable.

Regarding water supply, the city is required to have twice the capacity needed for current properties. We are within a couple of hundred before maximum number of properties is hit which has CEQA and ADU construction implications.

Sewer

All CoS sewage routes to the Morris street pumping station via gravity. The one uphill exception is handled by Green Valley lift station, which pumps sewage up to the top of pleasant hill to then gravity feed down to Morris Street.

Morris Street station pumps out to a vortex at Llano Road, after which the county takes responsibility. Morris Street is powered by electric grid/PGE and has a backup CAT diesel generator. The Syserco deal modernized some of the control mechanisms.

The sewer system's biggest cost concern is clay pipe, of which there is a lot.

Total is 26~28 miles of pipe with most of the clay pipe installed in the 1970's, joined every 3 feet. Camera inspection is performed internally every 5 years. There are many illegal city wastewater tie ins off gutters etc. which add to everyone's sewer costs. This combined with storm water run-off abrades and degrades the pipe.

The city's best sewer pipe is pvc sdr35 which was installed in the '90s.

A loop system is needed at Lynch Road, and isolation valves installed throughout the system so that failed pipe sections can be isolated.

Underground infrastructure

The Storm drain system is not part of enterprise, they are general fund, along with roads. While discussing them here is out of scope the infrastructure is old and leaky, resulting in rainwater infiltrating the sewer system. This is an enterprise issue because adding significant amounts of water to the sewage pumping results in massively higher sewer treatment costs.

Example: Morris Street typically flows 40000 gallons per day. During the recent heavy rain, the figure was 1.5 million gallons of mostly rainwater. PGE pumping costs and treatment costs are very substantial.

INFRASTRUCTURE / OPERATIONS AD HOC SUBCOMMITTEE REPORT
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Major financial costs and concerns

The leaking and failing general fund-maintained storm drain system has a major impact on enterprise infrastructure wear and tear and transmission power costs, which translate to higher rate payer bills.

Illegal city wastewater tie ins off gutters etc. add more to everyone's sewer costs.

Substantial clay pipe replacement with pvc sdr35 or better is needed with new isolation valves installed, and loop systems to provide alternate water supply routes.

Well 4 requires relocating with new drilling and a new pump, a substantial CIP project.