

**CITY OF SEBASTOPOL CITY COUNCIL****AGENDA ITEM REPORT FOR MEETING OF:****August 4, 2026**

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To: Honorable City Councilmembers
From: Mayor Jill McLewis
 City Attorney Alex Mog
Department: City Administration
Subject: Consideration of Reimbursement of \$350,354 in City Attorney Budget Allocation to the Water and Sewer Enterprise Funds

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RECOMMENDATION(s):

This item recommends consideration and approval of a resolution to do the following:

1. Authorize the reimbursement of City Attorney Budget Allocation to the Enterprise Funds as follows:
 - Water Enterprise Fund: \$130,867
 - Sewer Enterprise Fund: \$219,487; and
2. Approve a Budget Amendment to transfer \$350,354 from General Fund Reserves to the Water and Sewer Enterprise Funds as allocated above; and
3. Direct continued review of the broader Enterprise Fund Oversight Committee (EFOC) recommendations such as EFOC Recommendations related to the City Manager Department Budget due to vacancy of position. This should be reviewed once the City Audit has been completed for the FY 25 26 Budget for actual costs and should be returned to Council for review.

PROCESS OF AGENDA ITEM:

- Presentation by Presenter Mayor McLewis/City Attorney Mog
- Council questions and discussion
- Public Comment
- Deliberation and action

EXECUTIVE SUMMARY:

At the July 21, 2026 City Council meeting, the Council responded to the Sonoma County Civil Grand Jury report with input from legal counsel. On the same date, the Enterprise Fund Oversight Committee (EFOC) submitted a formal memorandum providing comments on the City's proposed response to the Grand Jury report concerning the Water and Sewer Enterprise Funds.

The EFOC's independent review has provided substantial value to the City by identifying financial issues, promoting transparency, and offering concrete recommendations that strengthen the long-term health of the Enterprise Funds. In light of the EFOC's recommendations, the Mayor has brought forth this item to request that the Council authorize the immediate repayment of \$350,00 in City Attorney budget allocation previously charged to the Enterprise Funds. This action will help restore Enterprise Fund capacity so that financing for critical capital projects, including Well #4 Replacement and the Pleasant Hill Loop, remains viable.

BACKGROUND:

The establishment of the EFOC itself represents a significant step toward greater accountability and public trust. As the only standing oversight committee of its kind in Sonoma County focused specifically on enterprise funds, the EFOC has delivered meaningful, independent scrutiny that benefits both ratepayers and the City's overall financial management.

As noted in presentations and recommendations from the EFOC, the EFOC previously identified approximately \$373,850 of the City Attorney budget that was allocated by the Enterprise Funds for FY 24/25 and FY 25/26. The EFOC identified that \$23,496 of this amount was justified, leaving an amount of \$350,354 in the City Attorney budget that the EFOC identified as being overcharged to the Enterprise Funds. The Committee has characterized

this as an unprecedented spike in legal expenses lacking justification and requests that these fees be reimbursed preferred immediately.

DISCUSSION:

The City has removed tiered water rates and suspended water rate increases for the current fiscal year. The proposed repayment, informed by the EFOC's work, will help improve the financial position of the Water and Sewer Funds. This strengthens their ability to support critical capital projects (including Well #4 Replacement and the Pleasant Hill Loop) and to obtain external financing.

Restoring Enterprise Fund capacity is also essential to accommodate additional infrastructure demands associated with approved and pending development, including infrastructure needs related to the Barlow Hotel project (for which a TOT rebate has been approved).

Although the EFOC has submitted a broader set of recommendations for Council consideration, the repayment of city attorney budget allocation (identified as Recommendation Number 5 in the attached EFOC memorandum) is immediately actionable.

It should be noted that beginning March 2026, legal counsel has implemented detailed invoicing that separately identifies enterprise-fund charges, providing greater transparency and accuracy in cost allocation. Prior to March 1, 2026, legal invoices did not allocate or split charges between the enterprise funds and the General Fund. As a result, time associated with enterprise-fund matters was routinely billed entirely to the General Fund. For example, if a City Council meeting included a 45-minute enterprise-fund item, the charge for attendance at the entire meeting was billed solely to the General Fund (with the General Fund later reimbursed through the cost-allocation plan).

The proposed reimbursement of city attorney budget allocation to the enterprise funds may therefore include charges that properly should have been attributed to the enterprise funds but were paid by General Fund allocation plan). These include, but are not limited to:

- Matters related to water/sewer personnel,
- Labor negotiations involving employees allocated to the water/sewer funds,
- Review of agenda reports /attendance at meetings/travel related to enterprise items

Reimbursing these amounts to the enterprise accounts will support the City's ability to advance critical infrastructure needs while staff completes a refined cost-allocation analysis based on the detailed invoices and time-tracking information now available.

I encourage the Council and staff to continue engaging with EFOC recommendations.

STAFF ANALYSIS:

This action would help to restore resources needed for priority capital improvements. It also demonstrates responsiveness to the independent analysis provided by the EFOC. However, the EFOC recommendation is based on information regarding year-to-date legal fees provided to the Committee in early April, and thus does not include invoices provided after that date (covering March through June of FY 25/26). If those amounts are included the \$350,354 amount would decrease.

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

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

Goal 4: HIGH PERFORMANCE ORGANIZATION

Restore public trust, improve public communications, and strengthen collaborative partnerships with outside

agencies and service providers.

Goal 3 – Infrastructure. Maintaining high quality infrastructure, facilities and services includes repairing/ replacing outdated city facilities, improving streets, stormwater and wastewater infrastructure.

PUBLIC COMMENT:

As of the preparation of this staff report, no public comments have been received on this item. Any comments received after distribution of the report will be provided to the City Council as supplemental materials. Public comment will also be accepted during the meeting.

COMMUNITY OUTREACH:

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

FISCAL IMPACT:

One-time impact: \$350,354 repayment from General Fund Reserves to the Water Enterprise Fund and Sewer Enterprise Fund. The EFOC's preference is for immediate restoration. Council may consider splitting the repayment across FY 2026/2027 and FY 2027/2028 if cash-flow constraints require it.

RESTATED RECOMMENDATION:

The Mayor recommends that the City Council:

1. Authorize the reimbursement of City Attorney budget allocation to the Enterprise Funds as follows in an estimate of \$350,354; and
2. Approve a Budget Amendment to transfer \$350,354 from General Fund Reserves to the Water and Sewer Enterprise Funds as allocated above; and
3. Direct continued review of the broader Enterprise Fund Oversight Committee (EFOC) recommendations such as EFOC Recommendations related to the City Manager Department Budget due to vacancy of position. This should be reviewed once the City Audit has been completed for the FY 25 26 Budget for actual costs and should be returned to Council for review.

Cost Allocation Plan									
Department	NEW COST PLAN						NEW METHOD - USED FY24-25 ACTUAL		
	FY24-25			FY25-26			FY26-27 - Option A + CPI 2.5%		
	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total
City Council	50,209	52,465	102,674	49,767	54,891	104,658	43,050	47,563	90,613
City Manager	129,411	150,817	280,228	128,272	157,791	286,063	186,481	205,801	392,282
City Attorney	70,129	114,458	184,587	69,512	119,751	189,263	-	-	-
ACM/City Clerk	38,434	62,728	101,163	38,096	65,629	103,725	37,707	65,505	103,211
Admin Svs (Finance)	306,241	323,159	629,400	303,546	338,103	641,649	280,177	323,628	603,805
Public Works - Engineering	92,548	89,999	182,548	91,734	94,161	185,895	75,239	77,229	152,468
Public Works - Corp Yard	157,315	108,077	265,393	155,931	113,075	269,006	153,521	105,042	258,563
Public Works - Gov't Bldg	-	-	-	-	-	-	6,719	5,666	12,385
Non-Departmental	8,575	7,230	15,805	8,500	7,564	16,064	7,147	6,483	13,630
Total	852,863	908,934	1,761,797	845,358	950,965	1,796,323	790,041	836,917	1,626,958

CITY COUNCIL OPTIONS:

1. Deny the recommendation
2. Deny recommendation and provide alternate direction to staff.

ATTACHMENT(S):

1. Enterprise Fund Oversight Committee Memorandum dated July 21, 2026 – Comments on Proposed

Response to Sonoma County Civil Grand Jury Report
2. Budget Amendment Resolution

APPROVALS:

Department Head Approval:	Approval Date: 7/27/26
CEQA Determination (Planning):	Approval Date: NA
<u>The proposed action is not a project under the California Environmental Quality Act (CEQA)</u>	
General Plan Goal (Planning):	Approval Date:
Administrative Services (Financial)	Approval Date: 7/30/26
Costs authorized in City Approved Budget: ☐ Yes ☐ No ☐ N/A	
Account Code (f applicable) _____	
City Attorney Approval:	Approval Date: 7/30/26
City Manager Approval:	Approval Date: 7/30/26

MEMORANDUM**To: Sebastopol City Council****From: Enterprise Fund Oversight Committee****Date: July 21, 2026****Subject: Comments on Proposed Response to Sonoma County Civil Grand Jury Report**

The Committee believes the proposed response does not address the substance of the Grand Jury's findings or the majority of the recommendations previously provided by the EFOC. While the response identifies future cost allocation studies, time tracking, rate studies, and loan forgiveness for the Sewer Enterprise Fund, these actions do not address the immediate needs of Prop. 218 compliance and securing financing for the critical Water Infrastructure capital improvements identified in the Grand Jury report, specifically, the Pleasant Hill Loop and Well #4 Replacement. These two infrastructure pieces have catastrophic consequences if they fail. The Grand Jury's central concern was the financial impact of past Prop. 218 violations which resulted in current critical infrastructure needs. The misallocation of Ratepayer funds resulted in a lack of capital spending on vital Water Infrastructure. Specifically, the Grand Jury report outlined immediate infrastructure needs which include the Pleasant Hill Loop and Well #4 Replacement. The Grand Jury report identified \$5,500,000 in money, which should be returned to the Enterprise Funds for Capital Improvements.

The Committee respectfully requests that the City Council consider the following points that were outlined in the EFOC's finance committee Grand Jury Recommendations, which the Council has received and can be found attached to this document.

Highlights for immediate action include:

Repayment of Enterprise Funds: The Committee previously identified approximately \$350,354 in attorney fees, approximately \$588,000 in engineering and contract service charges. The EFOC asks that the attorney's fees be immediately reimbursed due to the fact that there is no documentation to support these charges. While the engineering fees show that the City overcharged the Enterprise Funds. The EFOC is not seeking immediate reimbursement. Immediate request is \$350,354 in attorney's fees. \$130,867 would be restored to Water Fund. \$219,487 would be restored to Sewer Fund.

Correction of Current Cost Allocation Plan: The Committee recommends 1) removal of Council Time, 2) 15% of each department budget for Finance, City Manager, City Clerk be allocated to Water and 15% of department budget for Finance, City Manager, City Clerk be allocated to Sewer. This should be done by mid-Budget review.

Shift the ongoing Syserco Payment Obligation from the Water Fund to the General

Fund: The Syserco Loan was committed to the Ratepayers with no due diligence and drove the fund into financial distress and did not address any significant capital improvement needs such as Well #4 Replacement and Pleasant Hill Loop. There seems to be no reason why this loan was taken and why this debt was passed onto Ratepayers. The Water Enterprise Fund and Ratepayers should not be responsible for this debt. The General Fund should absorb this debt, which would ease the debt burden on the Water Fund and make it more attractive to lenders for Well #4 Replacement.

Repay Past Syserco Payments to the Water Fund over the Next 4 Years. The General Fund should reimburse the Water Fund for previous Syserco Lease Payments of \$843,965 over four years from Measure U Funds or the City's reserves.

Loan Forgiveness of 1.2 Million Dollar Loan from General Fund to Sewer Fund: This loan was mandatory due to the City's financial mismanagement of Sewer Funds as outlined in the Grand Jury Report.

Many of the issues identified by the Grand Jury were also identified by the EFOC and brought to the Council's attention. The Committee believes the City should take immediate actions so that funding for Well #4 remains viable.

Reconsider Rate Freeze and Tier Structure Changes: The Committee remains concerned that the recent decision to freeze water rates and eliminate tiered rates was adopted without the broader financial reforms previously recommended by the EFOC. Based on analyses previously provided to Council, the rate freeze is projected to reduce Water Fund revenues by approximately \$775,000 over the next five years. Without offsetting these rate freezes, reserves are projected to decline from approximately \$2.4 million today to a deficit position within the planning horizon, reducing the City's ability to fund critical infrastructure projects, maintain adequate reserves, and finance major capital improvements.

The Committee recommends that the Council reverses the rate freeze and restoration of the water rate tiers, and evaluates any future rate modifications within the context of a comprehensive financial strategy for the Enterprise Funds.

The Committee recommends that if Council wants to retain the rate freezes that they implement the recommendations by mid-year budget review.

Infrastructure and Deferred Maintenance Must Remain the Priority: The Committee believes the most important message of the Grand Jury Report is that years of underfunding have resulted in deferred maintenance and neglected infrastructure improvements throughout the City's water and wastewater systems.

The Grand Jury concluded that the City's violation of Prop. 218 and misappropriated Ratepayer Funds through unjustified Cost Allocation resulted in Enterprise Funds that lacked sufficient resources for maintenance and capital improvements and that the systems have suffered from years of underfunding. The Committee believes the City's response should place greater emphasis on restoring the financial capacity necessary to address critical infrastructure needs rather than focusing primarily on future studies and administrative reforms.

In terms of Water infrastructure the Committee and Grand Jury have grave concerns about Well 4 and the Pleasant Hill loop. These are vulnerable parts of the infrastructure and if they fail during a fire would have devastating impacts. In terms of Sewer Infrastructure, aging sewer mains, inflow and infiltration issues, and other projects identified that will be identified in the Sewer Master plan need to be addressed. These are existing liabilities that continue to become more expensive the longer they are deferred.

Conclusion

The Committee is concerned that the City's response does not provide a clear commitment to restoring money to the Enterprise Funds so that critical capital improvements can be initiated and completed in a timely manner. The City's response does not address current Prop. 218 violations, specifically regarding allocations of the City Council, City Manager, City Clerk and Finance Department. Historical over allocation has robbed Ratepayers of a safe and secure Water Supply and functioning Sewer system. The City needs to pay restitution for the past and current Prop. 218 violations and the fraudulent Syserco Loan.

The Committee further recommends that the Council revisit the analyses, recommendations, and supporting documentation previously submitted by the EFOC and its subcommittees. Many of the concerns identified by the Grand Jury were also raised by the Committee, and numerous recommendations have already been provided regarding cost allocation reform, repayment strategies, infrastructure funding, and long-term financial sustainability. The Committee believes those recommendations warrant formal consideration as part of the City's corrective action plan.

CITY OF SEBASTOPOL
RESOLUTION NUMBER XXXX-2026

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL APPROVING A
BUDGET AMENDMENT TO TRANSFER \$350,354 FROM THE GENERAL RESERVES FUND TO THE WATER
AND SEWER ENTERPRISE FUNDS FOR REPAYMENT OF CITY ATTORNEY
FEES

WHEREAS, the Sonoma County Civil Grand Jury issued a report concerning the City of Sebastopol's Water and Sewer Enterprise Funds; and

WHEREAS, the Enterprise Fund Oversight Committee (EFOC), in its memorandum dated July 21, 2026, provided comments on the City's proposed response to the Grand Jury Report and recommended, among other actions, the repayment of approximately \$350,354 in City Attorney budget allocation charged to the Enterprise Funds for FY 24/25 and FY 25/26; and

WHEREAS, the EFOC identified that approximately \$350,354 in attorney fees were charged to the Enterprise Funds and has requested a preferred immediate reimbursement allocated as \$130,867 to the Water Enterprise Fund and \$219,487 to the Sewer Enterprise Fund; and

WHEREAS, restoration of these funds will help to improve the financial position of the Water and Sewer Enterprise Funds, enhancing their ability to support critical capital projects including Well #4 Replacement and the Pleasant Hill Loop, and to obtain external financing, particularly in light of future increased system demand associated with approved and pending new development; and

WHEREAS, the City Council finds that a budget amendment transferring \$350,354 from General Fund Reserves to the Water and Sewer Enterprise Funds is necessary and appropriate to implement the recommended repayment; and

WHEREAS, the proposed action is not a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(4) (creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project).

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

The City Council hereby authorizes and directs the immediate repayment of \$350,354 in City Attorney budget allocation to the Enterprise Funds, with \$130,867 reimbursed to the Water Enterprise Fund and \$219,487 reimbursed to the Sewer Enterprise Fund; and

The City Council directs continued review and consideration of the remaining recommendations submitted by the Enterprise Fund Oversight Committee as part of the City's ongoing long-term financial planning for the Enterprise Funds.

The above and foregoing Resolution was duly passed, approved, and adopted at a regular meeting of the City Council of the City of Sebastopol held on the 4th day of August, 2026.

I, the undersigned, hereby certify that the foregoing Resolution was duly adopted by the City of Sebastopol City Council by the following vote:

VOTE:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED: _____
Mayor, Jill McLewis

ATTEST: _____
Mary Gourley, City Manager

APPROVED AS TO FORM: _____
Alex Mog, City Attorney