

**From:** [City Council](#)  
**To:** [Mary Gourley](#)  
**Cc:** [Oriana Hart](#); [Erik Billing](#); [Ana Kwong](#); [Torran Korman](#)  
**Subject:** FW: Celebrate: Water and Wastewater Issues Are Finally Being Discussed Publicly  
**Date:** Sunday, May 31, 2026 10:08:52 PM  
**Attachments:** [Public Comment #5 Celebrate Water and Wastewater Issues Are Finally Being Discussed Publicly.pdf](#)

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Please see public comment as it relates to an agenda item that will be on a city council meeting.

BCC: Email BCC to City Council, City Attorney

City staff that received this email are listed in the CC distribution line as noted above.

City Staff: Please Post to City Website

Thank you

Mary Gourley

City Manager

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**From:** Lee Mathias <[REDACTED]>

**Sent:** Sunday, May 31, 2026 5:06 PM

**To:** Mary Gourley <mgourley@cityofsebastopol.gov>; City Council  
<citycouncil@cityofsebastopol.gov>

**Subject:** Celebrate: Water and Wastewater Issues Are Finally Being Discussed Publicly

Hi Mary,

Public Comment for June 2 - Agenda item 5 - Enterprise report out.

I included council as it is late Sunday - maybe they will be reading this afternoon.

Lee

[REDACTED]

## **Celebrate: Water and Wastewater Issues Are Finally Being Discussed Publicly**

I first spoke publicly about the management of Enterprise funds three years ago.

At that time, I raised the following concerns. All are still teaching us lessons today:

AUGUST 2023

***Enterprise Budget deficits began to grow in 2021–22, when a 17% increase in general city expenses was shifted from the city budget to water and sewer ratepayers. That was followed by another 10% increase the next year.***

The City Council appeared unaware the general fund department expense increases when approved would increase costs to the Enterprises. This confusion continues today.

***The city allocates part of the costs of most departments to water and sewer operations based on a study that is now more than 20 years old. Those allocations are applied not only to salaries and benefits, but also to many other departmental costs. As a result, expenses with little or no obvious relationship to water and sewer operations appear to have been passed on to ratepayers through an outdated allocation method.***

I was more “politically correct” at the time. The allocation method was both outdated and illegal. Today rate payers are not paying for fire department, planning department and building inspection expenses, but they are still paying for the administrative department expenses and there is no documentation that expenses with no relationship to water and sewer are not being included.

***Direct operating expenses also rose at double-digit rates with little public attention. Last year, two new pickup trucks were purchased. More recently, the City Council approved a \$94,000 “critical” flatbed dump truck even as deficits continued to grow, and that approval was included in the consent calendar.***

Operating expenses do grow with inflation. The issue was that the water and wastewater budgets were spending more than they were taking in revenue. **Reserves were being depleted and the City Council was approving even discretionary expenditures like flatbed trucks.**

***In addition, water and sewer ratepayers are facing substantial debt payments tied to a \$5,000,000 commitment to Sysco for several supposed energy-savings initiatives, including replacing all water meters with electric meters. This decision was made by a city council that didn't even consider that both water and wastewater enterprise budgets were in deficit and did not have funds to make the loan payments.***

Same story second verse. The Water and Sewer fund had been in deficit for a couple of years. The city council at the time approved a \$5,000,000 loan that added a \$250,000 loan payment to the sewer fund. It rapidly depleted its cash reserves and had to borrow \$1,000,000 from the general fund to pay the bills.

**Advance three years to May 2026:**

### **Sonoma County Grand Jury Report – Deferred Action has Consequences**

The Grand Jury investigated the City's management of its Water and Wastewater Enterprise Funds. Their findings support the urgent need for the city council to address the many issues facing the Enterprise Funds:

*“The Grand Jury found that the Enterprise Funds’ insolvency resulted from a combination of overallocation of indirect costs for more than 20 years and insufficient user fees that were based on infrequent rate studies and adjustments, and on inaccurate projections of usage for fees in place between 2019 and 2023. Despite steps the City has taken to correct course, Sebastopol’s Water and Wastewater systems suffer from years of underfunding that have resulted in deferred maintenance and neglected upgrades.”*

The Sonoma County Grand Jury determined that the city was using the “cost allocation plan” to take rate payers money to pay general fund expenses. It also found that by diverting the funds they also deferred critical maintenance of water and wastewater infrastructure.

Sebastopol residents now have the highest water rates of any city in the county, and it is increasingly clear that these rates will not address the \$8+MM in deferred system repairs and maintenance. The result of the ongoing Sewer study may demonstrate even greater needs. Some of the water projects on the current list were in the 2005 plan. 20 years and the city has not found the money to make critical improvements and repairs.

The Grand Jury has provided independent confirmation that the allocation scheme was illegal. It also makes the case that by taking this money from rate payers the result was deferred maintenance on aging infrastructure. They proposed the city pay back \$5.5MM using general fund money to pay for water infrastructure. The lesson is that ignoring issues with the allocation scheme can produce substantial consequences for the city. There are issues which will be discussed below.

### **Welcome the Enterprise Oversight Committee**

The future is brighter as we now have meaningful public participation through the Enterprise Oversight Committee. Members have only a single focus – water and wastewater. **Tonight, for the first time in what may be 25 years, key issues will be discussed in front of the City Council. That is encouraging, and there may be real reason for hope depending on how the council receives this information and what actions it directs staff to take.**

**FINANCE SUBCOMMITTEE**

The finance presentation tonight will highlight the central problems that have created pressure on Enterprise funds since 2021:

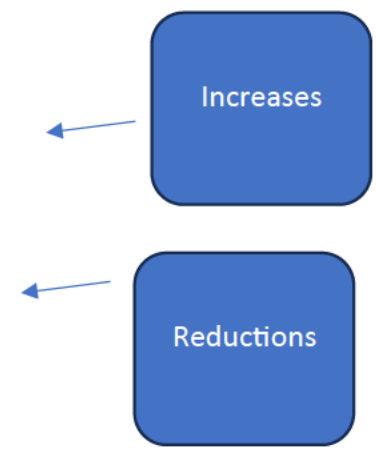
**Sharp increases in city staff costs and departmental budgets were allocated to the enterprises without any clear explanation of how the enterprises would generate the revenue to cover those costs. That decision drove the enterprises into recurring budget deficits and ultimately contributed to the recent major rate increases.**

It remains difficult to understand how the City Council at the time allowed general fund costs to rise without publicly discussing the impact on the enterprise funds. My public comments were among the few places where that impact on ratepayers was raised directly. **That is why I continue to insist that staff reports clearly show the fiscal impact of any change to expenses that are allocated to water and wastewater.**

Public comment first challenged the city’s compliance with Proposition 218 more than three years ago. Although the issue was not discussed publicly at the time, the city later hired a consultant to review and update the allocation model. That review appears to have confirmed that the prior allocations were not appropriate and that significant adjustments were needed. Rate payers immediately began paying \$714,000+ less for General Fund expenses.

The table below compares the new allocations with the prior ones. Total w/s is the allocation amount. % of budget is the % of the Fiscal Year department budget.

	FY 23-24		FY 24-25		Change Allocation
	total w/s	% of budget	total w/s	% of budget	
city council	\$ 41,993	20%	\$ 84,243	42%	\$ 42,250
City manager	\$ 169,456	36%	\$ 202,460	29%	\$ 33,004
City Attorney	\$ 51,619	8%	\$ 201,233	31%	\$ 149,614
City Clerk	\$ 57,487	13%	\$ 94,633	22%	\$ 37,146
Finance/Admin	\$ 1,003,261	72%	\$ 632,702	44%	\$ (370,559)
Planning	\$ 51,197	8%			\$ (51,197)
Building Inspection	\$ 63,798	26%			\$ (63,798)
Engineering	\$ 296,110	51%	\$ 211,684	38%	\$ (84,426)
Fire Dept	\$ 101,591	7%			\$ (101,591)
Public Works corp yard	\$ 511,543	82%	\$ 295,063	61%	\$ (216,480)
Government Buildings	\$ 76,068	41%	\$ 11,405	4%	\$ (64,663)
Non Departmental	\$ 52,020	18%	\$ 28,375	15%	\$ (23,645)
	\$ 2,476,143	34%	\$ 1,761,798	36%	\$ (714,345)



Inappropriate charges to rate payers to planning, building inspection, and the fire department were removed. Those three departments alone cost ratepayers more than \$2 million over 20 years.

Additional reductions were made in finance (-\$370,000), the public works corporation yard (-\$216,480), government buildings (-\$23,645), and non-departmental costs (-\$23,645).

Public comments, consultants, and the Sonoma County Grand Jury all agreed that the allocation scheme was illegal or at least not in the best interest of water/wastewater customers. The updated model proved the point. The Grand Jury used the updated model (first in 20 years) as evidence of overcharging, and they calculated at least \$5.5 million was taken from spending on infrastructure to funding the city's general expenses. The question remains are the costs being allocated now legal or at least "reasonable". Only a judge can decide if it is legal. **As elected officials you have fiduciary responsibility to safeguard public funds and ensure all expenditures are lawful.**

The method used for 20 years was flawed because rate payers were paying the cost of departments that had nothing to do with delivering water to residences. The current model and the new process for charging rate payers also have significant flaws that will be discussed tonight. Although some department costs were eliminated and others reduced, the allocation percentages for the administrative department actually increased from the prior method. (See table above)

The share assigned to the City Council budget increased from 20% to 42%. The City Attorney allocation moved to 31%, and the City Clerk allocation doubled (13% - 22%). The rationale for these changes is still unclear. The City Manager allocation decreased from 36% to 29% but significant new expenditures were moved into that department budget, so the allocated dollars increased significantly. (Note in the FY 26-27 budget allocation is now 60% of the city manager department budget).

The ClearSource model includes extensive numerical detail, but no information the data or interviews that increased these allocations. We have been told that the figures are based on interviews, typical practices in other cities, and budget documents provided by the city, but that still falls short of transparency. The model (if continued to be used) needs to have specific details on the costs that are being allocated, how those costs contribute to service delivery and be supported by time sheets showing how much "overhead" expenditure is actually occurring.

At tonight's meeting, the Finance Subcommittee is expected to make a strong case that many of these allocations remain too high.

## **City Council**

City council members have acknowledged that they spend limited time on water and wastewater issues. **Tonight, will be the most substantive Enterprise discussion the council has had in at least 4 years.** Giving the two subcommittees to report, questions and public comments, it may total 30 minutes of a 4-hour meeting. **This is 10% of the meeting. Water rate payers are paying for 2.0 hours of this meeting and every meeting.**

## **Finance Administration**

A task and time analysis of the **Administration Department** billing and customer service functions showed 1.5 people in Finance spent all their time on Enterprise work. **Given current pay schedule the actual cost of billing and customer service is roughly \$200,000 in direct cost (salary & benefits). Ratepayers are being charged roughly another \$400,000 in what is described as overhead.**

## **Legal Costs**

Legal costs are another concern under the new allocation model. However, next year, rate payers will be billed directly for actual legal costs. For the last two years, it appears that 31% of all legal expenses are being assigned to ratepayers. Rate payers were charged \$201,000 in each of the last two years FY 24-25, FY25-26 for a total of \$400,000. Kate Haug has documented actual enterprise-related legal costs much closer to \$10,000. This money should be returned to rate payers. There is nothing in proposition 218 that allows a city to charge rate payers for unrelated litigation costs.

## **City Manager**

Rate payers are being charged about \$250,000 for city manger expenses. Yet there was no city manager. There was no oversight, work on staff reports or budgets. Rate payers are also paying for the Assistant City Manager/City Clerk who actually did all that work. A refund of the \$250,00 is in order.

## **Allocation Model Needs to Go**

The allocation model has many issues:

1. No documentation for the inputs to the model
2. High % of administrative department budgets being paid for by rate payers – well beyond documented “reasonable Overhead”.
3. Using actuals from 2 years ago as a basis for charging rate payers is well removed from the actual cost of service today.

4. Not “trueing up” at the end of the year further removes the allocated costs from actual costs to deliver services
5. Model appears to be costly to run.

The finance committee’s argument is that the simplest solution is to charge ratepayers directly for the actual costs of departments that support the enterprises. Public Works already does this. Employees track time working on Water and Wastewater and their Salaries and Benefits are directly charged to Enterprise funds. Most direct services and supplies are already charged directly. Directly related contract works such as Engineering and Legal is charged to the enterprises. The few costs like use of the Citywide Accounting Software can be allocated based on best estimates of the usage. Employee-related costs can be charged based on the number of FTEs assigned to Enterprise funds.

This **may require more effort, but that is the price of taking money from ratepayers for public purposes.** Proposition 26 is clear that the city bears the burden of providing data to support any allocations. This tracking needs to be done to document all inputs if you want to continue with the allocation model. The burden on staff is reduced by the fact that the billing system already has a module that allows employees to track their time.

## **INFRASTRUCTURE**

Infrastructure is another issue that must be addressed. Oliver’s video recordings helped many of us better understand how the system works, and Greg provided valuable insight from the perspective of an apartment owner/commercial user.

One example is water pressure: concerns about unusually high pressure in his buildings now may be connected to the fact that the city’s three pressure regulators are not functioning. As a building owner he is paying the cost of his own pressure regulators. **Is this a hidden cost to customers resulting from the city’s neglect?** Paying these high-water costs, customers should expect more.

**These pressure regulators also (apparently) play a role in moving water between the zones in case of emergency. Currently, they are not scheduled for repair for three more years. That priority requires more discussion.**

We have also learned how critical **Pleasant Hill main** is to the entire city, and why adding a loop to provide redundancy in the event of failure matters so much. **The Pleasant Hill Loop project appeared in the 2005 water rate study and remained on the CIP plan at least through 2018 as an unfunded project.** Even though it has been considered critical for 26 years, yet the cost was omitted from multiple rate studies in which the cost could have been built into rates and the project completed. **This is exactly the kind of long-term operational failure the Oversight Committee should continue to examine.**

**Another striking discovery is that ratepayers have been covering increased wastewater costs caused in part by stormwater entering the sewer system and then being pumped and treated.**

As many now understand, aging clay sewer pipes become porous over time and allow stormwater infiltration during rain events. Even though this was a known issue, staff never clearly identified the need in any CIP proposal or incorporated the cost into the last rate study. **If the Oversight Committee can help quantify the cost to rate payers and push for proper infrastructure planning, it will have more than justified its existence.**

### **Enterprise Committee Has Much Work Ahead**

There is still a lot of work to be done. Ongoing priorities include:

- Advise Council the FY26-27 budget for water and wastewater (they didn't review it)
- Advise Council on the FY26-27 CIP plan
- Review proposed equipment purchases for FY26-27 being charged to Enterprises
- Provide public perspective into the response to the Grand Jury
- Develop an acceptable alternative/revision to the allocation model
- Finding the Syserco cost savings promised to the city and rate payers. Rate payers have spent approximately \$1,000,000 – there should be savings
- Develop a cost analysis of storm water pumping in sanitary sewer system, develop options to reduce cost effectively
- Monitor progress on the CIP plan
- Review and provide feedback on the Sewer Master Plan and resulting CIP projects
- Drive discussion of options to accelerate CIP projects with long term benefits by financing them and reducing the cost to rate payers.
- Evaluate the data supporting the tiered rate structure. Such a rate structure is a significant risk under proposition 218. Recommend rate changes to the city council
- Consider the need for a new rate study, assuming financing lowers the immediate costs, allocations are reduced significantly and tiered pricing is not well supported. Sebastopol pays the highest costs in Sonoma County, and it appears they are actually paying more than they need to, if Enterprise operations were run more efficiently.
- Evaluate alternative structure (i.e. create an Enterprise Department) to increase financial and operational accountability and institutional knowledge of the finances and systems

From the public's point of view, the Enterprise Oversight Committee has been a major success. It has undoubtedly required staff time, but the fact that so many basic questions initially went unanswered shows that more staff attention should have been devoted to these issues all along. Ratepayers were paying for that work whether it was being done well or not. The committee is finally helping to bring those issues forward for resolution. It is up to the city staff, city manager and city council to follow through with the recommendations.

## STRUCTURE AND ACCOUNTABILITY

The deeper structural problem is that no single employee appears to be fully responsible for enterprise operations. Finance and accounting handle billing, but they also divide their time among other city functions. Public Works employees are assigned not only to water and wastewater, but also to buildings, streets, parks, and other municipal responsibilities. The Assistant Superintendent may be largely allocated to enterprise work on paper, but in practice has also been pulled into broader Public Works management. The result is a system in which critical enterprise maintenance can lose priority to other immediate city tasks.

That is not a criticism of staff; it is a criticism of how the city is organized. Private-sector organizations recognized this kind of structural problem decades ago. Sebastopol still appears to be operating far behind that standard. For something as essential as water and wastewater service, the city should be aiming for a far more modern and accountable structure.

There are consequences. City didn't appear to know about the Lano Trunk repair. This costly infrastructure repair was planned, implemented and finally the city was billed for its share of the cost. How can something so big slip through the cracks. No one in charge. No one is accountable. No process to capture what is going on.

The folks from Santa Rosa presented to the Enterprise committee. At a time, Sebastopol was increasing sewer charges due to "increased costs from Santa Rosa", the City of Santa Rosa told the group that they focused on keeping processing increases under 2% since 2015, this is a key expense for the Sewer Fund so WHY did sewer rates increase so much if a key expense component did not rise beyond normal CPI? Probably leaking pipes, stormwater and the fact that no one on staff apparently knows of Santa Rosa's goal to keep cost growth to 2%. If someone knew this and didn't speak up – that is part of the cultural problem.

Finally, who knew that \$1MM in rate-payer money was held in a reserve by the city of Santa Rosa. This was not typical reserves. This was a "reimbursement reserve". Each year Santa Rosa "true up" the budgeted charge with actual expense and puts any surplus in this reserve. Over the years it grew to \$1MM. Again, no dedicated team. Finance probably not informed. We don't know what Dante knew and what he passed along. No process, no institutional knowledge. Why does Santa Rosa "true-up" actual vs budgeted expense and the Enterprise fund cannot.

## OUTSTANDING ISSUES

The water study identified a number of fire hydrants along the west side of the city that do not meet required pressure and flow. Recently CalFire provided an updated fire hazard map showing the western edge of the city is not considered to be moderate risk for wildfire. Low hydrant pressure would not be welcomed if wildfire approached from the west/northwest. It was unclear in the water study, but it seemed that the Pleasant Hill loop was in part intended to boost water pressure on the west side of town. That project will not be under construction for 2 more years. It has been part of the cities CIP plan since 2005. Always delayed and deferred.

The Eastern side of the city is the location of all but one of our wells. This area also was newly identified as moderate wildfire risk. It is also considered an earthquake hazard zone due to the potential for liquification of soils? **Do we have to drill our new well 4 in a fire/earthquake hazard zone?**

Culture change is the final issue to be addressed for now. There needs to be more of a sense of urgency and accountability. Well 4 is 50 years old and has been contaminated for at least 10 years. It is our primary well. Yet the city is rolling the dice with continuous discussions about replacing the well but no action...yet. Still hoping for a grant.

When Oliver and Greg were touring the water system they were told about the pressure valves that allow water to be shifted between zones if demand were to change due to an emergency. What was not mentioned was that the valves don't work and have not worked for several years. It seems like this is critical infrastructure. It should have surfaced as a CIP project during the last rate study and been on the CIP plan. They were not. Why? Does PW staff feel they cannot be honest about issues and needs with people outside their circle. If the city's culture is to contain issues in an effort to make the city look better, this could be an explanation for why there are so many issues in this city.

There also seems to be a culture that there is no way to decrease any costs. I have heard staff say it is "built into the rates already". One example is the fact that PW has known for some time that the sewer system pumps 2-3x the volume after storms, yet no one calculated the actual additional cost to rate payers and proposed solutions? The city just increased the rates to compensate.