



CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: February 3, 2026

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

RECOMMENDATION:

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

EXECUTIVE SUMMARY:

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

BACKGROUND:

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

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

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

DISCUSSION:

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

STAFF ANALYSIS:**Water:**



City of Sebastopol

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

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

Wastewater:

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

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

Final Note:

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

The purpose behind increasing rates is twofold:

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

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



City of Sebastopol

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

Water Rate Model:

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

BUDGET COMMITTEE REVIEW

The Budget Committee will be reviewing this item on January 12, 2026.

ENTERPRISE FUND COMMITTEE REVIEW

This item is scheduled for the Enterprise Fund Committee review at its meeting set for January 13, 2026.

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

Goal 5 – Long Term Financial Sustainability

Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

Action Plan 2 – Quarterly Financial Report

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

FISCAL IMPACT:

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

PUBLIC COMMENT:

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

COMMUNITY OUTREACH:

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

RESTATEMENT RECOMMENDATION:

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

CITY COUNCIL OPTION(S):

There are no options to consider.

ATTACHMENTS:

Second Quarter Financial Reports



City of Sebastopol

APPROVALS:

Department Head Approval:

Approval Date: 1/6/2026

CEQA Determination (Planning):

Approval Date: N/A

The proposed action is / is not exempt from the requirements of the California Environmental Quality Act (CEQA)

Administrative Services/Financial Approval: Approval Date: 1/6/2026

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

Account Code (if applicable)

City Attorney Approval:

Approval Date: _____

City Manager Approval:

Approval Date: _____

DRAFT

WATER OPERATING FUND
OCTOBER - DECEMBER 2025
QUARTER 2 REPORTING



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

Detail - Water Operation Fund - 500

October - December 2025

Quarter 2 Expenditures



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

Detail - Water Operation Fund - 500

October - December 2025

Quarter 2 Expenditures



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

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WASTEWATER OPERATING FUND
OCTOBER - DECEMBER 2025
QUARTER 2 REPORTING



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


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

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

Detail - Wastewater Operation Fund - 510

October - December 2025

Quarter 2 Expenditures



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