

Agenda Report to Council DRAFT

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.

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.

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 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
- Received presentation on the water master plan

All Meeting Agendas:

- [EFOC Meeting 12/17/25](#)
- [EFOC Meeting 01/13/26](#)
- [EFOC Meeting 02/10/2026](#)
- [EFOC Meeting 03/02/26](#)
- [Joint Meeting 03/30/26](#)
- [Joint Meeting 04/06/26](#)
- [EFOC Meeting 04/28/26](#)

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

1. Recommended Cost Allocation Plan as noted below:
 - 1.
2. Recommended forgiveness of the enterprise repayment to the General Fund (\$1.2M).
3. Recommended to implement the following measures:
 1. direct billing of contracted services
 2. correction of FTE allocations
 3. reduction of shared departmental percentages
 4. removal of unrelated costs
4. Issue Request for Proposals (RFP) for outside utility billing services.

5. Issue Request for Proposals (RFP) for a comprehensive forensic audit of the Enterprise Funds. The Committee recommends engaging an independent forensic auditing firm to perform a detailed examination with the following scope:
6. Issue Request for Proposals (RFP) for expert consulting services on cost allocation and direct billing.

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

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.

Recommendations to City Council:

1. Receive and file the full Infrastructure/Operations Ad Hoc Subcommittee report, including all supporting data from:
 - Infrastructure walking tours
 1. [Discussion of Water Supply](#)
 2. [Discussion of Storm Drains](#)
 3. [Pump Station Tour](#)
 4. [Aquifer Pump Schedules & Depths](#)
 5. [Keeping Reservoirs Full](#)
 6. [Pump Trucks](#)
 7. [Sewer Line Sizes](#)
 8. [Well Depth](#)
 - Sewer 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 priority recommendations into:
 - The Sewer System Master Plan Update just recently awarded to 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. 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.
5. 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.

FISCAL IMPACT:

Forgiveness of the \$1.2 million repayment provides a one-time benefit to the Enterprise Funds.

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;
- Discuss the recommendations for RFPs as part of the FY 2026-27 budget process
- Support of Option A Cost Allocation with gradual implementation of direct charges
 - Not Supported by Kate Haug

- Implementation of priorities in the Sewer and Water Master Plans in the FY 2026-27 CIP as well as 5 year CIP plan
- Recommendation to forgive the \$1.2 loan from the enterprise fund