

The Grand Jury identified \$5,500,000 that the City of Sebastopol owes the Enterprise Funds due to the misallocation of Ratepayer Fees and rates based on undocumented, unjustified and unverified expenses. The Finance Committee agrees that the City owes the Enterprise Funds \$5,500,000.

The Finance Committee also realizes the City is in a state of financial hardship.

To remedy the situation, the Finance Committee puts forth the following solutions.

- 1) Correct the Cost Allocation plan for 2026/2027 by reducing City Manager from 63% to 30% of Department budget, reducing Finance/Administration from 40% to 30% of Department budget and reducing City Clerk from 20% to 15% Department Budget. Move all contractors, including Engineering, to Contract Services. Removing City Council Allocation from Enterprise Budgets until Council time is documented. Currently 52% of Council's budget is allocated to Water and Sewer. There is zero documentation to support this. Reduce anticipated legal expenses to \$12,500 for Water and Sewer for a combined total of \$25,000.
- 2) Time track starting September 1, 2026 and use time tracking to develop next Cost Allocation for 2027/2028. This will provide transparency and accurate budgeting.
- 3) Establishment of a Water and Sewer Municipal Utility Board to provide continuing oversight on Capital Improvements and all financial decisions to maintain separation between Ratepayer and Enterprise Fund needs and the needs of the City's General Services and to provide Ratepayer advocacy.
- 4) With the Water and Sewer Oversight Committee (or Water and Sewer Municipal Utility Board), review Cost Allocation Transfers based on Adopted Budget vs. Audited Expenses. This review should take place once Audited Expenses are complete. This review should determine if the General Fund owes the Enterprise Fund a refund for excess allocation or if the Enterprise Fund owes the General Fund for underpayment of services. It is not clear that this review and reconciliation has taken place in the last 20 years.
- 5) Refund Enterprise Funds \$350,354 for excessive attorney's fees. This reimbursement to the Water and Sewer Funds could be split between FY 2026/2027 and 2027/2028. There is no documentation to support this unprecedented spike in legal fees. No legal invoices have been provided to support claims despite repeated requests.
- 6) Suspend Rates and remove tiered water pricing until new Cost Allocation based on time tracking is completed, Sewer Master Plan is completed and Grand Jury resolution is reached. All water should be priced at the lowest tier until pricing can be based on data.

- 7) Forgive \$1,200,000 "loan" to Sewer as this insolvency was forced by Council's and City's negligence and bad financial management of the Sewer Enterprise Fund. Financial negligence is documented in the Grand Jury report.
- 8) Starting July 1, 2026 General Fund to pay the Water Enterprise's Sysco Loan annual of payment \$168,593 as Council took out this loan without doing any due diligence as to whether or not there was a benefit to the Ratepayer. There was no benefit to the Ratepayer and in fact, costs increased. In addition, Ratepayers were never told that this loan and SmartMeters would incur debt and produce higher rates. The City circulated a survey to Ratepayers regarding digital water meters and financial impacts to the Enterprise Funds and water prices were not mentioned. Council and Staff never discussed the Sysco Loan and its impact to the Enterprise Funds, Ratepayers and Water and Sewer bills. Financial impact should be a standard discussion of any loan and capital improvement project. The loan is a breach of fiduciary duty and This shows negligence and lack of financial stewardship.
  - a) The Sysco Loan dedicated to Sewer Infrastructure appears to be legitimate and therefore the Sewer Enterprise Fund will continue its repayment of that portion of the loan.
- 9) The General Fund to reimburse Water Enterprise Fund for Sysco Payments from July 2022 through June 30, 2026, which totals \$842,965. This reimbursement could be made by directing 15% of Measure U Funds to the Water Enterprise Fund through 2036. With any remaining balance paid by the end of the Fiscal Year 2037. Moving forward starting with FY 2026/2027, Measure U funds would be divided as follows: 40% Infrastructure, 15% Water Enterprise Fund repayment, and 45% General Fund.
- 10) As Sebastopol sits on a substantial aquifer and next to the Laguna, water supply is stable. The area surrounding Sebastopol is known for agriculture because it has a stable water supply. Given the strength of our water supply, the City should promote Green Infrastructure by rewarding businesses and residents for reducing surface temperatures via Green Infrastructure by planting trees, shrubs, and grasses. Green Infrastructure is the best way to mitigate storm water, reduce temperatures and provide wildlife habitat during a transitioning climate. Until Sebastopol needs to reduce water, the best way to help our aquifer and reduce the impacts of climate change is to support Green Infrastructure which lowers surface temperatures and also helps reduce storm water runoff. The City should support schools and other institutions with large green spaces to sustain plants and trees. Trees and plants can reduce surface temperatures by 5 to 15 degrees. The City should be committed to Green Infrastructure as a means to help mitigate climate change and help keep surface temperatures within the City down.

- 11) Develop new rates for all categories once time tracking has been implemented, the Sewer Master Plan has been completed, the Enterprise Funds have been reimbursed for excessive fees and previous Sysserco Payments, the Water Fund is not longer responsible for Sysserco Loan and the Sewer Fund no longer has \$1,200,000 debt.
- 12) After the Cost Allocation plan is built on time tracking, implement tiered pricing in accordance with PG&E rates. This would encourage people to reduce impact on the grid during high use times, thus avoiding brown outs, and lower overall energy costs for the City and Ratepayers. This would save both the City and Ratepayers money.
- 13) The City of Sebastopol has extremely poor roads, many of which require full reconstruction. The EFOC requests that the City work to develop a pavement plan that coordinates Water and Sewer infrastructure work with pavement replacement.
- 14) The EFOC would like to see a Sewer Plan developed by the City that prioritizes the mitigation of storm water incursion into the sewer system. In addition, the City needs to develop a fee structure to offset the infrastructure demands of new development on the existing sewer system.
- 15) These adjustments would satisfy the Grand Jury recommendation:
  - a) Refund of Attorney's Fees and Sysserco Loan \$1,193,319.
  - b) General Fund payment of Water Enterprise Fund Sysserco Loan Moving forward from FY 7/1/2026 until Loan's Termination on 7/1/2036 \$1,685,930.
  - c) Correction of Cost Allocation moving forward to be Prop. 218 and Prop. 26 compliant with time tracking.
  - d) Establishment of a Water and Sewer Municipal Utility Board to provide continuing oversight on Capital Improvements and all financial decisions to maintain separation between Ratepayer and Enterprise Fund needs and the needs of the City's General Services and to provide Ratepayer advocacy. This board would review Allocation Transfers and Audited Budgets to ensure that Enterprise Funds are either reimbursed for overpayment or the General Fund is reimbursed for underpayment after the Transfers are compared against the Audited Budgets.
  - e) Promote Green Infrastructure with trees, shrubs and grasses. Support schools, parks and other large public areas with Green Infrastructure to lower surface temperatures, create shade, and mitigate stormwater.
  - f) Establish a new rate structure based on new financial information and a new cost attribution plan.
  - g) Established tiered rates based on PG&E costs if tiers are deemed necessary.

- h) Develop Water and Sewer Infrastructure upgrades with a Pavement Plan.
- i) Using the Sewer Master Plan, develop a Sewer Upgrade Plan that prioritizes the mitigation of stormwater incursion and also creates a financial plan for fees associated with new development to support necessary sewer upgrades.

While these recommendations are significantly less in dollar value reimbursement than the \$5,500,000 Grand Jury recommendation (\$2,880,000 instead of \$5,500,000), the Finance Committee sees this as an achievable remedy which would move the City into prop. 218 and prop. 26 compliance, produce more transparency and accurate budgeting now and in the long term, create accurate information for future rates, allow Enterprise fund viability while rates are determined, establish long-term ratepayer advocacy and oversight, and not be overly burdensome on the City.