

DRAFT AGENDA ITEM REPORT FOR MEETING OF: **October 20, 2026**

RECOMMENDATION:

PROCESS OF AGENDA ITEM:

- ## EXECUTIVE SUMMARY:

The City's 2024 Water Rate Study anticipated that construction of the replacement well would ultimately be financed through debt. As part of the Well 4 Mitigation and Replacement CIP, LSCE was asked to provide a funding strategy for the Well process. As part of the funding strategy evaluation, staff and LSCE reviewed three primary financing options: DWSRF, the California Infrastructure and Economic Development Bank (IBank), and WIFIA. Based on the evaluation, WIFIA is recommended as the preferred financing source because it provides the greatest overall flexibility for the City's water infrastructure program, particularly with respect to funding timing, reimbursement, and loan term flexibility.

BACKGROUND AND PROJECT STATUS

The City retained Luhdorff & Scalmanini Consulting Engineers (LSCE) to provide engineering services for the replacement well and associated pump station. The scope includes site investigation, hydrogeologic evaluation,



monitoring well installation and testing, production well design, pump station design, permitting, environmental compliance, and assistance with project financing.

The monitoring well portion of the site investigation has now substantially progressed. The monitoring wells have been drilled and developed, and the drilling contractor has completed the remaining site work and demobilization. LSCE has indicated that the monitoring well development was successful and that water quality sampling is being completed as part of the continuing site investigation. The monitoring well (located at the Well 4 site) investigation is an important step in establishing the technical basis for the replacement well. The results will inform the final production well design, including well construction, anticipated production capacity, water quality considerations, and related treatment and operational requirements.

DISCUSSION:

To fund the Well 4 Replacement Project, three primary funding sources were evaluated: 1) Drinking Water State Revolving Fund (DWSRF), 2) California Infrastructure and Economic Development Bank (IBank), and 3) Water Infrastructure Finance and Innovation Act (WIFIA). The evaluation of funding sources considered timeliness, interest rates, CEQA requirements, funding administration costs, reimbursement timing and flexibility, and the flexibility of the funding agreement.

Although DWSRF offers the lowest interest rate, the analysis identified a significant disadvantage in the expected funding timeline. The presentation estimates approximately two years for DWSRF funding approval and execution of the funding agreement, while also identifying additional CEQA-Plus requirements, higher administrative costs, and less flexible reimbursement procedures. In addition, DWSRF does have the funding capacity it once did and has priorities that take precedent meaning securing DWSRF for the City's water projects faced great uncertainty. Bank provides an attractive alternative because it can finance 100 percent of eligible project costs and has a lower minimum financing amount. However, loan payments begin upon execution of the loan agreement. WIFIA provides the greatest financial flexibility for the City's current water infrastructure program. The funding analysis identifies the small-community WIFIA program as providing up to 80 percent of total project costs and a five-year capitalization period during which no payments are required. This flexibility provides the City with additional time to complete construction and place the assets into service before beginning debt payments.

Recommended WIFIA Approach

LSCE recommends pursuing WIFIA financing as the City's primary financing strategy for Well 4 and other near term high-priority water CIP projects. Because WIFIA small-community financing is structured to fund up to 80 percent of eligible project costs and the program identified in the funding analysis has a \$5 million minimum, the proposed strategy is to combine Well 4 with additional high-priority water CIP projects. The current funding package identifies Well 4, the Pleasant Hill Loop project, and Water Tank Seismic Retrofit projects for a combined financing package of approximately \$6.25 million, consisting of \$5.0 million in WIFIA financing and \$1.25 million in local funding (provided over the five year construction period).

The proposed strategy will allow the City to continue advancing Well 4 while using the City's available financing capacity to address additional high-priority water infrastructure needs. The financing strategy will also be coordinated with an update to the City's water rates so that the water enterprise has sufficient revenue capacity to support the proposed debt service and maintain appropriate reserves.



Funding / Project	Amount
WIFIA Financing	\$5,000,000
Local Funding	\$1,250,000
Total Funding Package	\$6,250,000

Proposed Project	Amount
Well 4 Mitigation & Replacement	\$3,400,000
Pleasant Hill Loop	\$955,000
Water Tank Seismic Retrofits	\$1,895,000
Total Funding Package	\$6,250,000

Water Rate and Enterprise Fund Considerations

The City's ability to finance the Well 4 Mitigation and Replacement Project is directly tied to the financial condition of the Water Enterprise and the City's water rate structure. The 2024 Water and Wastewater Rate Study was developed to address the financial needs of the City's utility systems and establish a long-term framework for funding operations, maintenance, reserves, and capital improvements. The adopted water rates included scheduled annual increases and a tiered rate structure intended to provide sufficient revenue to support the Water Enterprise and its long-term needs. Since adoption of those rates, the City Council has suspended implementation of the tiered water rates and did not implement the scheduled July 2026 water rate increase while the City considers a new rate study. As a result, the Water Enterprise is no longer operating under the revenue structure contemplated in the 2024 rate study and is not collecting sufficient revenues to maintain water system resiliency.

This change has a direct impact on the City's ability to secure financing for Well 4 and other major water infrastructure projects. The 2024 rate study anticipated that significant capital improvements would be financed through debt. Before taking on substantial new long-term debt, however, the City needs to establish that the Water Enterprise has sufficient and reliable ongoing revenues to operate the system, maintain appropriate reserves, address deferred maintenance, fund future capital improvements, and support additional debt service.

Staff therefore recommends initiating a comprehensive update to the Water Rate Study now. The purpose of the update is not simply to establish additional rates, but to develop a sustainable financial structure for the Water Enterprise based on the City's current costs, infrastructure needs, capital program, reserve requirements, and financing strategy.

The updated study should evaluate the appropriate rate structure and cost allocation, operating and maintenance requirements, reserve targets, deferred maintenance, the current Capital Improvement Program, and the anticipated debt service associated with Well 4 and other priority water infrastructure. The goal is to establish rates that allow the Water Enterprise to reasonably and sustainably operate the system, maintain adequate reserves, address its infrastructure obligations, and responsibly support long-term financing.

The timing of the rate study is particularly important because the City has significant water infrastructure needs beyond Well 4. The 2026 Water Master Plan Update identifies approximately \$10 million in recommended water projects for implementation over the next five to ten years. A comprehensive rate and financing strategy is therefore



necessary to ensure that the Water Enterprise can address these needs without creating a structural deficit or placing the fund at risk of insolvency.

With the repayments to the Water Enterprise Fund recently approved by City Council, there is sufficient funding to advance the design of Well 4 and the other high-priority projects. Additionally, the projects will need to be advanced to a 30% design to be packaged for funding. This milestone will not likely be met before the end of the fiscal year. Thus, the Water Rate Study and water infrastructure priority project designs should proceed concurrently. This allows the City to continue making progress on the project while the rate study establishes the long-term revenue structure necessary to support construction financing and ongoing operation of the water system.

STAFF ANALYSIS:

The City has reached the point where the technical development of Well 4 and the financial planning for its construction need to proceed together. LSCE evaluated several potential financing sources for the project, including the Drinking Water State Revolving Fund, IBank, and WIFIA. Based on that evaluation, WIFIA is the recommended financing source because it provides the City with greater flexibility in funding timing, reimbursement, and financing terms.

WIFIA also provides an opportunity to consider Well 4 within the context of the City's broader water capital program rather than treating the replacement well as an isolated project. The 2026 Water Master Plan Update identifies approximately \$10 million in recommended water projects for implementation over the next five to ten years. Establishing a financing strategy now will allow the City to consider Well 4 within that larger capital program and potentially use the same financing approach for other high-priority infrastructure.

Staff recommends continuing to advance the Well 4 project (which provides 50% of the City's total well capacity) while the financing and rate work are underway. The City has already invested in the site investigation and preliminary project development, and the current work is producing information needed to complete the production well design and prepare the project for construction. The Well 4 CEQA document reflects the Well 4 Mitigation and Replacement Project is exempt from CEQA with replacement on the same site with the same capacity, function, and purpose. Continuing design during the financing period also provides the City with greater flexibility in responding to financing requirements. As the design advances, the City will be able to refine the project scope, cost estimate, construction schedule, environmental documentation, and other information needed for the financing application.

The financial component of the project will proceed on a parallel track. Before assuming significant additional long-term debt, the City needs a current financial plan for the Water Enterprise that reflects its actual revenue structure, operating costs, reserve requirements, existing obligations, and capital needs. This financial planning is particularly important given the number of infrastructure projects identified in the Water Master Plan. The recommended approach is therefore to maintain momentum on the project while simultaneously establishing the financial capacity necessary to construct and operate the replacement facility. This allows the City to use the current period productively and avoid making project design dependent upon completion of the financing process.

CITY COUNCIL GOALS / PRIORITIES / GENERAL PLAN CONSISTENCY:

This item aligns with:

City Council Goals

- Community Vitality: Enhance Sebastopol as a great place to live that values community health and wellbeing; preserve unique character.
- Infrastructure: Maintain high-quality facilities and services, including repairing/replacing outdated city facilities.
- High Performance Organization: Restore public trust; improve public communications.
- Economic Development



PUBLIC COMMENT:

As of preparation, no written public comments received. Any received after publication will be provided as supplemental materials. Oral comments may be provided during the public comment period.

COMMUNITY OUTREACH:

Noticed in accordance with the Ralph M. Brown Act; available for public review at least 72 hours prior to the meeting.

FISCAL IMPACT:

There is no immediate fiscal impact associated with approving the financing strategy. The current Well 4 design work is funded through the approved Water Capital Fund budget.

The proposed financing strategy would result in future debt obligations to the Water Enterprise Fund. The current planning-level financing package contemplates approximately \$5 million in WIFIA financing and \$1.25 million in local funding. Final debt service, interest costs, loan term, and the timing of payments will be determined through the financing procurement process and will be brought back to the City Council for approval.

The WIFIA structure identified in the funding analysis provides significant flexibility in the timing of debt payments, including a five-year capitalization period for the small-community program. This flexibility is expected to reduce near term pressure on water rates while the replacement well and other infrastructure projects are designed and constructed.

RESTATED RECOMMENDATION:

That the City Council approve the proposed financing strategy to pursue WIFIA funding for the Well 4 Replacement Project and other identified high-priority Water Capital Improvement Projects, authorize staff to proceed with development and procurement of the WIFIA funding package

OPTION(S):

1. Approve Recommended Financing Strategy: Approve the proposed WIFIA financing strategy and direct staff to proceed with development of the funding package and return to Council with a financing procurement schedule and final financing documents.
2. Provide Alternative Direction: Council may provide direction to staff regarding an alternative financing source, financing structure, project package, or timing.
3. Do Not Proceed with Financing Strategy: Council may elect not to approve the proposed financing strategy and provide direction to staff regarding an alternative approach to funding the Well 4 Mitigation and Replacement Project.

ATTACHMENTS:

- A. Prepared presentation.

APPROVALS:

Department Head Responsible for Agenda Item:	Approval Date:
CEQA Determination (Community Development/Planning):	Approval Date: N/A
<u>The proposed action is Exempt from CEQA pursuant to §15306.</u>	
Administrative Services (Financial):	Approval Date: N/A
<u>Costs authorized in City Approved Budget:</u> ☐ Yes ☐ No ☒ N/A	

City Attorney Approval:	Approval Date:
City Manager Approval:	Approval Date:

City of Sebastopol Enterprise Funds Oversight/Budget Committee

Water Enterprise Fund Update

10.5.2026 Meeting



**Luhdorff &
Scalmanini**
Consulting Engineers

City of Sebastopol – 10.5.26 Budget/EFOC Meeting

- Meeting Agenda:
 - **Well 4 Project Update**
 - LSCE Scope of Work.
 - Current Status.
 - **Water Funding Options**
 - Options Review.
 - Option Recommended.
 - **Water Funding Option Package**
 - Well 4.
 - Pleasant Hill Loop.
 - Water Tank Seismic Retrofits.
 - **Water Funding Procurement – Considerations For Best Terms**
 - City in good financial standing.
 - City utility rates support priority projects.
 - Priority Projects – in design phase.
 - **City Council Recommendations**
 - Continue project development for priority projects.
 - Approve funding strategy and direct staff to return with funding procurement schedule.
 - Update utility rates working with EFOC to support utility infrastructure reliability and funding procurement.



City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Well 4 Project Update:
 - Well Characteristics
 - Developed in 1953.
 - Provides 50% of total well pumping capacity.
 - Located within PCE contamination plume.
 - PCE Contamination
 - Tied to old dry cleaner site.
 - Present since 1980s.
 - Groundwater treatment: wellhead GAC treatment at Well 4.
 - PCE Plume
 - Extends 2,100 feet north of site.
 - Proposed remedial actions.
 - Fiscal challenge with aging infrastructure and costs to address PCE repairs.

City of Sebastopol – Importance of Well 4 Project

Improving Water System Capacity/Resiliency

Agenda Item Number 3

- Water System Capacity Information:

Well #	Operations Status	Year Installed	Avg. Annual Prod. (mg)	% of Total	Rate of Prod (gpm)	Firm Capacity (gpm)
4	Active	1953	150	48%	286	offline
6	Active	1968	19	6%	35	35
7	Active	1996	83	27%	159	159
8	Active	2007	59	19%	112	112
Total			311	100%	592	306
5	Inactive	1960	offline	offline	offline	offline
Firm capacity - calculated with largest well offline (Well 4).						

Well 4 Useful Life = 40 years.

Well 4 Current Life = 73 years.

Well 4 Capacity = 48% of total well capacity.

Well 4 Importance = critically important water system asset with top CIP priority (2024-2028).

City of Sebastopol Water Master Plan Update (2026)

Agenda Item Number 3

Table 1 Estimated Costs of Recommended Projects

Project No./ Priority	Ranking of Importance	Description	Start Year	Construction Cost ¹	Project Cost ²
1	High	Well 4 Replacement	2027	\$2,912,410	\$3,352,000
2	High	Pleasant Hill Loop	2027	\$750,680	\$952,780
3	High	Structural Assessment of Existing Water Tanks	2027	N/A	\$126,000
4	High	Seismic Retrofit Study for Existing Water Tanks	2027	N/A	\$141,750
5	High	Gwendolyn Place Water Service Connection Replacement	2027	\$57,690	\$73,240
6	High	Installation of Automated Flow Meter	2027	\$58,640	\$74,430
7	High	500 South Main Street Watermain Replacement	2027	\$120,110	\$152,480
8	High	Replacement of Existing Pressure Reducing Valves	2027	\$202,350	\$256,830
9	Medium	Well 6 Water Treatment System	2030	\$3,323,570	\$3,635,700
10	Medium	Valley View Drive Water Service Connection Replacement	2030	\$605,200	\$682,870
11	Medium	Covert Lane CI Watermain Replacement	2030	\$210,190	\$237,190
12	Medium	Ellis Court CI Watermain Replacement	2030	\$125,440	\$141,550
13	Low	Installation of Isolation Valves	2032	\$148,500	\$154,930
14	Low	Painting and Relining of Existing Water Tanks	2032	\$894,900	\$827,490
		Total		\$9,409,680	\$10,809,220

Notes:

¹ Considered construction cost with inflation or 4% annual escalation.

² Included soft cost and construction cost without inflation or 4% annual escalation

This report is subject to, and must be read in conjunction with, the limitations set out in Section 1 and the assumptions and qualifications contained throughout the Report.



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City of Sebastopol Water Master Plan Update (2026) Meeting of the Budget Committee and Enterprise Fund Oversight Committee

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City of Sebastopol

FY25-26 CIP Budget – Water CIP

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Full CIP has Well 4 listed as financing TBD by FY28.

Category Summary Report

8 - Water Projects

		FY24-25 Estimated	2025-26	2026-27	2027-28	2028-29	2029-30	TOTALS
PROJECT TITLE								
0819-21.01	Parquet Street Water Line Replacement (combined City project #1000-21.01)	1,530						
0821-23.09	Water System Master Plan Update	20,000	115,000					115,000
0822-24.06	NEW: Well 4 Replacement		400,000	2,600,000				3,000,000
0823-24.07	Water System Replacement Program			300,000	300,000	300,000	600,000	1,500,000
		21,530	515,000	2,900,000	300,000	300,000	600,000	4,815,000
PROJECT FUNDING SOURCES								
000	Contributions		400,000					400,000
000	Loans and other Financing			2,600,000				2,600,000
501	Water Capital Fund	21,530	115,000	300,000	300,000	300,000	600,000	1,815,000
		21,530	515,000	2,900,000	300,000	300,000	600,000	4,815,000



City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Well 4 Project Update:
 - LSCE Scope of Work
 - Permit/Develop Monitoring Well.
 - Deliver 100% Design Plans/Specs – Production Well
 - Support water funding actions.
 - Current Status
 - Secured Monitoring Well Permit
 - Drilled Monitoring Well.
 - Filed CEQA document.
 - Performed initial water quality testing.
 - Developed funding strategy.
 - Next Steps
 - Drill Production Well.
 - Finalize 100% design plans/specs.
 - Finalize funding package deliverables.



City of Sebastopol

Well 4 Project – Preliminary Implementation Schedule

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	City of Sebastopol - Well 4 Replacement Project Implementation Schedule												
	2026							2027					
Project Milestones	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Project Design													
Monitoring Well Permit													
Monitoring Well Construction													
Monitoring Well-Water Quality Analysis													
CEQA-File Project NOE													
60% Design													
100% Design													
Project Construction													
Bid and Award													
Start Construction													
Project Funding													
City Funding Decision													
Project Funding Procurement													
Note: CEQA NOE (approved and filed) and 60% design recommended for project funding procurement process.													



Schedule to be updated based on funding strategy and rate plan.

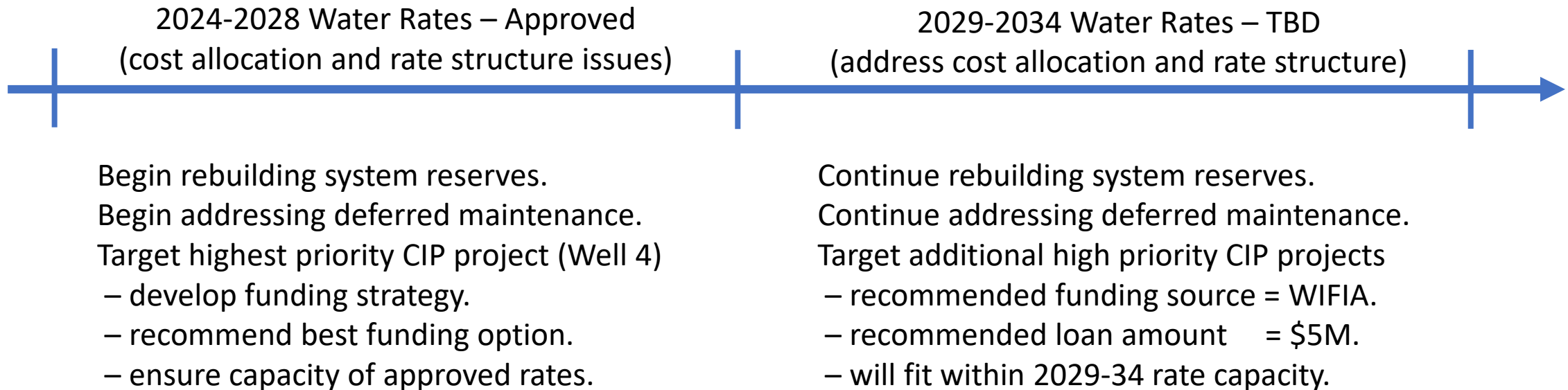
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City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Water Funding Options:
 - Options Review
 - Drinking Water State Revolving Fund.
 - California Infrastructure Bank.
 - WIFIA (federal program).
 - Option Recommended
 - WIFIA funding is the recommended option.
 - Provides greatest financial flexibility for the City.
 - Result of options review process.
 - Key Factors
 - Timeliness.
 - Funding Program Admin. Costs.
 - Funding Term Flexibility.

City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Water System Revenue Recovery – In Process:



Approximately \$10M in recommended water projects identified in the 2026 Water Master Plan Update report for implementation in the upcoming 5 to 10-year period.

City of Sebastopol – Water Funding Option Review

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- Basis For Water System Funding Recommendations (lowest is best):

Water Funding Sources	DWSRF	IBank	WIFIA
Timeliness	3	1	1/2
Interest Rates	1	1/2	1/2
CEQA Requirements	3	1	1/2
Funding Admin. Costs	3	1/2	1/2
Reimbursement flexibility/timing	3	1/2	1/2
Funding Agreement Flexibility	3	2	1 
SCORING	16	8.5	8.5

Timing = DWSRF timeliness is poor requiring 2 years for funding approval and agreement execution.

Interest Rates = DWSRF is lowest however costs can increase while waiting for approvals.

CEQA = DWSRF requires additional CEQA submittals (CEQA Plus).

Funding Admin. Costs = DWSRF has significantly higher admin. costs due to program inefficiencies.

Reimbursements = DWSRF quarterly with paper check; others monthly or bi-monthly with funds wired to account.

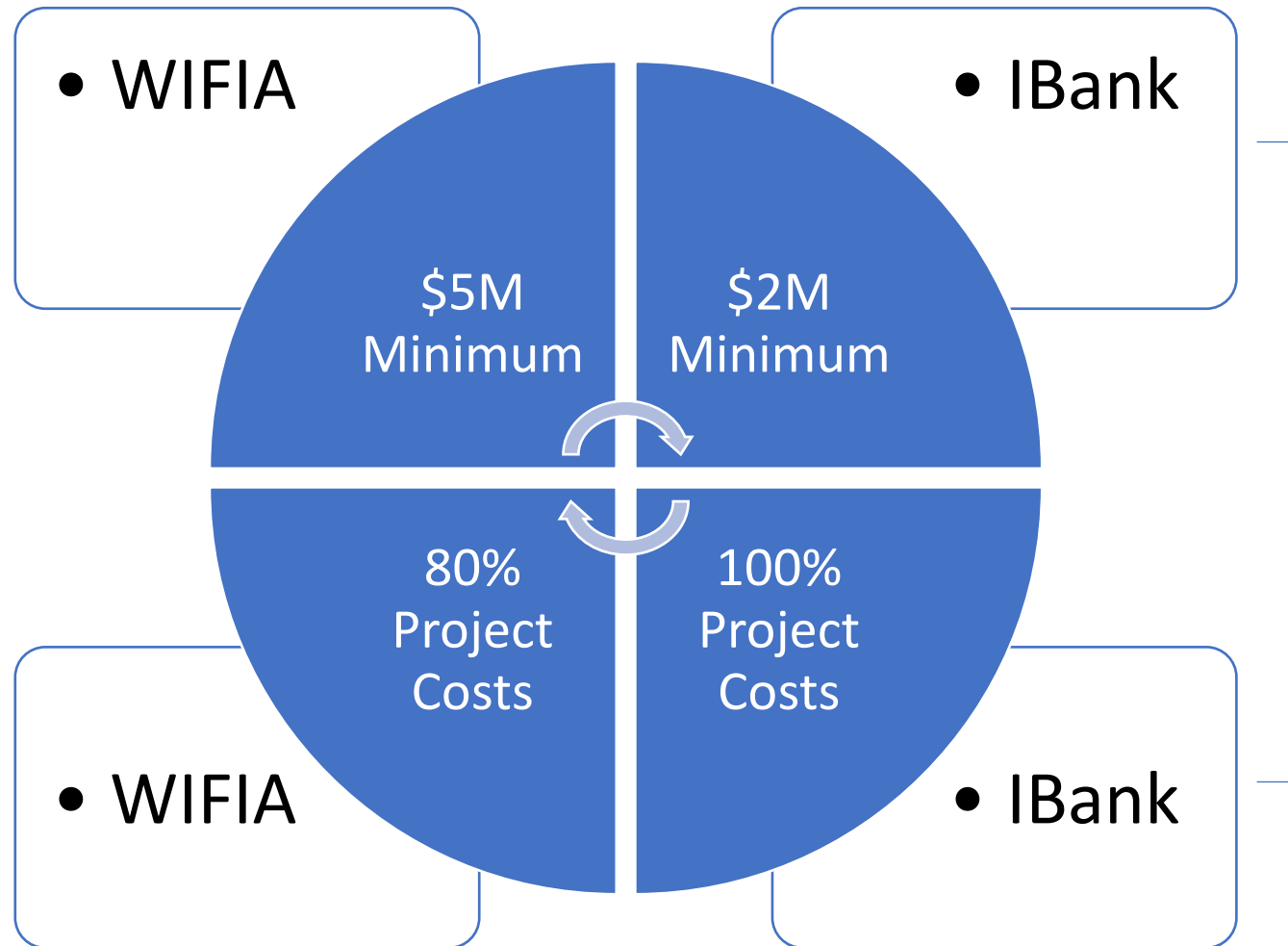


City of Sebastopol

Water Project Funding – Best Options

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WIFIA Small Community Funding – 80% total project costs and 5-year capitalization option (no payments).



IBank Funding – 100% project costs, payments begin with loan agreement execution.

City of Sebastopol – Water Project Funding Recommended

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- Water System Funding Recommendations:
 - Pursue WIFIA Funding For CIP Water Project Priorities
 - Account for in updated utility rates.
 - Develop projects into design phase.
 - Take advantage of WIFIA funding term flexibility to reduce future rate impacts.

City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Water Funding Option Package:
 - Well 4 Project (CIP Priority #1)
 - 100% design to be completed by Spring 2027.
 - Application ready.
 - Estimated Costs = \$3-3.4M.
 - Pleasant Hill Loop (CIP Priority #2)
 - Recommend 30% design for Application.
 - Address CEQA compliance.
 - Estimated Costs = \$0.953M.
 - Water Tank Seismic Retrofits (CIP Priority #3)
 - Recommend 30% design for Application.
 - Address CEQA compliance.
 - Estimated Costs = \$2.25M.

Funding Allocation:

WIFIA (80%)	= \$5.00M
Local (20%)	= <u>\$1.25M</u>
Total (100%)	= \$6.25M

City of Sebastopol – Budget/EFOC Meeting 10.5.26

- Water Funding Procurement:

- City In Good Financial Standing

- Good credit rating.
 - Adequate reserves.
 - Current debt service covered.

- City Utility Rates Support Projects

- Approved rates in place tracking increases.
 - Rates support projects.
 - Planned rates account for funding strategy.

- Priority Projects In Design Phase

- Recommend 30% design for Application.
 - Address CEQA compliance.
 - Funding agency has adequate information for streamlined approval.

Funding Allocation:

WIFIA (80%) = \$5.00M

Local (20%) = \$1.25M

Total (100%) = \$6.25M

City of Sebastopol – Water Rate Policy Options

- Water Rate Policy Options:
 - Maintain Current Water Rates (2024-2028)
 - Implement year 5 recommended rates in FY27-28 (year 4 rate increases not approved).
 - Doesn't address cost allocation and rate structure issues.
 - Doesn't incorporate WIFIA funding option to fund priority projects.
 - Update Water Rates (2029-2034)
 - Update in FY26-27 to address cost allocation and rate structure issues and align with WIFIA funding option. Updated rates can be in place by Summer 2027 if the rate update project starts by January 2027.

City of Sebastopol – Water Rate Policy Options

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EXHIBIT A

CITY OF SEBASTOPOL WATER AND WASTEWATER RATES

Five-Year Water Rate Schedule, Fixed Charges, \$/Bi-mo.

Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8"x3/4" & 3/4"	\$49.33	\$67.68	\$70.39	\$73.21	\$75.78	\$78.44
1"	\$82.41	\$111.95	\$116.43	\$121.09	\$125.33	\$129.72
1.5"	\$164.13	\$222.59	\$231.50	\$240.76	\$249.19	\$257.92
2"	\$262.77	\$355.37	\$369.59	\$384.38	\$397.84	\$411.77
3"	\$575.37	\$775.82	\$806.86	\$839.14	\$868.51	\$898.91
4"	\$821.78	\$1,395.46	\$1,451.28	\$1,509.34	\$1,562.17	\$1,616.85

Note: Single family on a 1" meter for fire service are charged the 3/4" rate.

Five-Year Water Rate Schedule, Volume Charges, \$/kgal

Customer Class	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
Residential						
Tier 1: 0 - 7 kgal	\$4.52	\$5.01	\$5.22	\$5.43	\$5.63	\$5.83
Tier 2: 8 - 16 kgal	\$4.52	\$6.39	\$6.65	\$6.92	\$7.17	\$7.43
Tier 3: > 16 kgal	\$4.52	\$8.87	\$9.23	\$9.60	\$9.94	\$10.29
Commercial	\$4.52	\$5.51	\$5.74	\$5.97	\$6.18	\$6.40
Irrigation	\$4.52	\$9.92	\$10.32	\$10.74	\$11.12	\$11.51

Note: Water truck haulers are charged at the Irrigation customer class rate.

1 kgal = 1,000 gallons

For Context:

7.1.26 rate increase not implemented.

7.1.27 recommend approving 7.1.27 rates unless rates are updated in FY26-27.



City of Sebastopol – Budget/EFOC Meeting 10.5.26

- City Council Requested Recommendations:
 - Continue Project Development For Priority Projects
 - Well 4 Replacement Project.
 - Pleasant Hill Loop Project.
 - Water Tank Seismic Retrofit Project.
 - Approve Funding Strategy
 - Approve WIFIA Funding Strategy For Priority Projects.
 - Direct staff to return with funding procurement schedule.
 - Update Utility Rates
 - Work with EFOC on recommendations for developing updated water rates that address the water tiered rate and cost allocation issues to replace current water rates. The water rate update project would begin in January 2027 and deliver the updated fee report and public notice to enable new water rates to be approved and in place by Summer 2027. The updated water rates will be necessary to secure water CIP project funding for the Well 4, Pleasant Hill Loop, and Water Tank Seismic Upgrade projects.