

# CITY OF SEBASTOPOL'S WATER AND SEWER SYSTEMS

Deferred Action has Consequences

May 2026

## SUMMARY

The 2025-2026 Sonoma County Civil Grand Jury (Grand Jury) responded to two citizen complaints by undertaking an investigation into the City of Sebastopol's (the City) management of its Water and Wastewater Enterprise Funds (Enterprise Funds). These funds depend on ratepayer fees to provide potable water for consumption and fire protection and to maintain the infrastructure required to deliver water and remove wastewater through the sanitary sewer and stormwater systems.

The citizen requests for a Grand Jury investigation included evidence the City was not complying with state laws that establish how user *fees* differ from *taxes* and how fees may be established. In 1996, California voters passed Proposition 218 (Prop 218), also known as The Right to Vote on Taxes Act. Prop 218 required that new taxes be approved by a two-thirds vote of affected citizens. In 2010, the passage of Proposition 26 (Prop 26) further distinguished between a general tax and a "special tax" or *fee*. A key difference between a general *tax* and a special tax or *fee* is that a *fee* is for a specific service that benefits identifiable properties, whereas a general *tax* benefits the public. Another difference is that a fee may not exceed the reasonable costs of providing a service plus a reasonable proportion of the shared or indirect costs of government operations, such as legal services and general administration. Revenue from a fee may only be used to provide the specific service for which it is charged.

To set fees in accordance with state law, cities typically engage consultants at three-to-five-year intervals to conduct two types of studies. A rate study determines the direct

costs of a service and how it will be shared among ratepayers. A cost allocation study examines the city's general administrative costs and establishes what percentage should be allocated to each department or function. It results in a cost allocation plan (CAP).

The complaints alleged and the Grand Jury confirmed that, prior to 2023, the City had not conducted a cost allocation study and revised its CAP for more than 20 years. The cost allocation rates were adjusted in 2024 to conform with the new study, but to date, no steps have been taken to restore lost Enterprise Funds that are sorely needed to pay for deferred maintenance and system upgrades. When a new CAP study was conducted in 2024, it revealed that the City had overallocated indirect costs to the Enterprise Funds. The Grand Jury estimated that the overallocation had resulted in approximately \$5.5 million dollars being moved from the Enterprise Funds into the City's general fund over the past nine years.

The complaints also questioned the legitimacy of the greatly increased water and sewer rates that took effect on July 1, 2024. The Grand Jury learned that while the City had conducted a rate study in 2019, the rates set for 2019 through 2023 did not anticipate the impact of successful water conservation programs. Because the rates were based on consumption, in part, less consumption resulted in less revenue. Based on its 2023 rate study, the City adjusted the fees to compensate for lower consumption. This resulted in a shocking 37% increase in water and sewer fees effective July 1, 2024, with approximately 4% annual increases scheduled for each of the next four years.

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.

This report describes the laws governing how cities may establish user rates for services such as management of water and wastewater. It explains how the City departed from these laws by overallocating shared, indirect costs to its Enterprise Funds, thereby shifting money intended to support specific services into its general operating budget. To enhance public information and awareness, the report also describes critical infrastructure which residents depend on for potable water and fire protection and the removal of wastewater and stormwater.

## **METHODOLOGY**

The 2025-2026 Sonoma County Civil Grand Jury:

- Conducted multiple interviews with City's staff and leaders, third party contractors and consultants, and service providers.
- Researched public records and information to gather documents, recordings of public meetings and interviews, contracts, etc. posted on the City's website.

## **GLOSSARY**

- **Annual Comprehensive Financial Report (ACFR):** A detailed annual financial report prepared by state and local governments to present their financial position and operating results.
- **Best Practices:** These are the industry-wide practices described by experts as the preferred methods used by practitioners in their fields. The Grand Jury interviewed experts in rate setting, allocating costs and water system management.
- **Cost Allocation Plan (CAP):** A formal method used to distribute indirect costs among different departments in a fair and systematic way to ensure that shared or overhead costs are properly assigned to the areas that benefit from them.

- **Depreciation:** The accounting process of allocating the cost of a tangible asset over its useful life.
- **Enterprise Fund:** A type of municipal accounting fund used to account for government activities that are generally intended to be self-supporting through user charges rather than taxes.
- **General Fund:** The main pool of money used to pay for everyday government services.
- **Potable/Fire:** The drinking/cooking/bathing and gardening water that comes out of your tap is called potable water. This is also piped to hydrants for fire protection.
- **Ratepayers:** Individuals or businesses that pay local property taxes to a municipal or local government authority for a specific service.
- **Rate Study:** A financial analysis conducted to determine the appropriate rates for services provided, usually by a government utility or public enterprise, so that revenues are sufficient to cover costs.
- **Sanitary Sewer:** The gravity powered, non-pressurized system of pipes that collects the wastewater from toilets, showers, and sinks in homes and commercial establishments and pipes it to a sewage treatment facility.
- **Storm Sewer:** The storm sewer removes water from the streets, such as from rain or overwatering a lawn. It is water that runs in street gutters and goes underground into pipes (often called culverts) and from there, in the case of the City, to the Laguna de Santa Rosa (Laguna). It ultimately ends up in either the groundwater aquifer or streams, or ponds and rivers to the ocean. When flooding occurs, the culprit is generally a storm sewer system that cannot handle all the run-off at a given time.

## **BACKGROUND**

### **Laws Governing Rate Setting**

Proposition 218 – “The Right to Vote on Taxes Act” created a 1996 constitutional provision (California Constitution Article XIII C) that established new procedural

requirements for levying assessments and imposing new, or increasing existing, property-related fees and charges. It also placed substantive limitations on the use of the revenues collected from assessments and property-related fees and charges, as well as on the amount of the assessment, fee, or charge that may be imposed on each parcel. Prop 218 was amended in 2010 by Proposition 26 (Prop 26), which is discussed below.

Constitutional Article XIII C defines two types of taxes: general and special taxes. By definition, general tax revenues must be placed into the general fund of a local agency and made available for any and all governmental purposes. Such general taxes must be approved by the electorate.

In contrast, a special tax is imposed for specific purposes. Article XIII C, section 2(a) provides that “special purpose districts or agencies, including school districts, shall have no power to levy general taxes.” “The revenues from any special tax shall be used only for the purpose or service for which [the tax] was imposed, and for no other purpose whatsoever”. (Cal. Gov’t Code § 53724(e).) If the special tax exceeds the reasonable cost of providing the service or product, then the tax must be approved by the electorate. In effect, if a special district’s property-related fees exceed the costs of providing the services for which the fees are imposed, those fees may be deemed to be a general tax and therefore must be approved by a two-thirds vote of the electorate.

California voters amended Article XIII C in November 2010 by adopting Prop 26. Section 1(e) was added, which defined the term “tax” and determined that, in relevant part, the “local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental

activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.”

Prop 218 requires that the rates applied must be proportional and Prop 26 requires that the special district has the burden to prove that the rates are reasonable. Moreover, Prop 218 is applicable to both independent special districts and dependent local government agencies directed by a county board of supervisors or a city council. (*Patz v. City of San Diego* (2025) 113 Cal.App.5th 225, 250)(Cal. Sup. Ct. denied review October 29, 2025.) Fees or charges for water service are fees imposed as an incident of property ownership and fall within Section 6(b)(3)'s purview. Accordingly, the City's Enterprise Funds are subject to the limitations of Prop 218.

The key question then is whether water and wastewater rates exceed the reasonable cost of providing the service or regulatory activity to parcels. If they do, they are taxes, not fees exempt from the requirement that the electorate approve it. (*County of Placer v. Corin* (1980) 113 Cal.App.3d 443, 449.) “Special assessments are not taxes and are not levied for general revenue purposes.” (*Id.* at 452.) “Moreover, to the extent that an assessment results in revenue above the cost of the improvement or is of general public benefit, it is no longer a special assessment but a tax.” (*Id.* at 451.) Accordingly, it is up to the City to prove that the rates charged are reasonable and proportional. (*Coziahr v Otay Water District* (2024) 103 Cal. App. 5th 785.) For a water agency to “carry its burden, an agency must generally provide evidence identifying the data used, analyzing the cost of service, and demonstrating the proportionality of the rate . . .” (*Id.*, citing *KCSFV I, LLC v. Florin County Water Dist.* (2021) 64 Cal.App.5th 1015, 1030.)

## **Best Practices for Rate Setting and Allocating Costs**

To comply with laws governing water and wastewater rates, cities typically conduct two studies at three-to-five-year intervals. Rate studies evaluate the direct cost of providing the services and establish what ratepayers will be charged to cover these costs.

The City conducted rate studies and adjusted water and wastewater rates in 2005, 2012, 2019, and 2023, but the 2023 study revealed that past increases had been insufficient to produce sufficient revenue.

Cost allocation studies examine how much a city is spending on general administration and determine a Cost Allocation Plan (CAP) to allocate a proportional amount of these costs to each department or function. Prior to 2023, the last CAP had been done more than 9 years before. The Grand Jury estimated that during the past nine years, overallocation of indirect costs resulted in approximately \$5.5 million dollars being moved from the Enterprise Funds into the City's general fund. This overallocation unreasonably exceeded the Enterprise Funds' share of the City's indirect costs.

### **Fiscal Accountability and Transparency**

In reviewing the overall financial position of the City, the Grand Jury found the 2022-23 Annual Comprehensive Financial Report (ACFR) Letter of Transmittal (page vii) identified the following in the Future Challenges section:

- Requests for City services far exceed available resources.
- The City balanced FY 23-24 with the use of \$1,678,000 in reserves.
- The City will be challenged to adhere to Council-adopted fiscal sustainability policies.
- The City faces a financial deficit that will result in a complete depletion of all reserves by FY 2025-26 unless there are substantial changes that bring additional revenue into the City.
- On November 21, 2023, the City declared a fiscal emergency.

The City identified several fiscal sustainability goals and priorities that had financially significant impacts. The Grand Jury focused on the following two statements within the Letter of Transmittal:

- c. i. The City will conduct a water rate study to analyze the cost of service for the enterprise utilities to ensure an equitable distribution of utility costs across customer types.
- c. ii. The City's cost allocation plan has not been updated since 2000. The CAP guides the distribution of costs...between the General Fund and Enterprise Funds that use general government services.

## **DISCUSSION**

### **Non-Compliance with Proposition 218**

The citizen complaints alleged that the City did not comply with Prop 218 by overallocating indirect costs to the Enterprise Funds, thereby moving fee revenue into the general fund. The Grand Jury investigation supports this allegation.

As described in the Background section of this report, Prop 218 permits cities to allocate indirect costs to Enterprise Funds as long as the cost allocation is proportional and reasonable. The costs must bear a fair or reasonable relationship to the benefits and burdens of providing water and wastewater services to rate payers. It is up to the City to provide the evidence that a levy, charge or other exaction can be justified as necessary to cover reasonable costs.

Best practices recommend that cities update their CAP every three to five years, but the City did not do so for more than 20 years. In 2024, after two decades of increasing allocated costs for water and wastewater services, the City contracted with Clear Source Financial Consulting to update its CAP.

Clear Source recommended that the indirect cost allocations be revised significantly. For 2023-2024, the single year that Clear Source studied, it recommended that the City lower the annual indirect cost allocations attributed to the Enterprise Funds by approximately \$714,000.

Rate studies are the basis for water and wastewater fees charged to customers. The resulting revenue may only be used to provide the services for which it is charged. Without regular, accurate rate studies and appropriate adjustment of fees, a city risks serious financial, legal, and operational consequences.

The City's infrequent and inaccurate rate studies meant that the Enterprise Funds were generating insufficient revenues for their level of expenses. Best practices advise cities to update their Rate Studies at regular intervals and adjust rates to cover, without exceeding, the direct cost of services. The City conducted rate studies in 2005, 2012, 2019, and 2023, but increases were insufficient to keep pace with direct costs. The 2023 rate study revealed that rates established in 2019 did not anticipate a significant reduction in water consumption due to conservation efforts. Lower consumption resulted in less revenue. Based on the 2023 rate study, the City raised water and sewer rates by a shocking 37%.

## **Fiscal Accountability and Transparency**

The Grand Jury noted that prior to fiscal year ending June 30, 2023:

- The Enterprise Funds operated at a net loss in three consecutive years (2020, 2021 and 2022).
- The Enterprise Funds continued to operate at a net loss for two more years (2023 and 2024) before showing net gain in 2025.
- However, shortfalls in the Enterprise Funds actually began in fiscal 2018, as shown in the following table of Enterprise Funds Business-type Activities.

<b>Business-type Activities:</b>				
	<b>Revenue</b>	<b>Expense</b>	<b>other</b>	<b>Net</b>
<b>2016</b>	5,320,925	4,556,861	(31,024)	733,040
<b>2017</b>	5,782,632	4,606,024	(31,023)	1,145,585
<b>2018</b>	5,298,554	4,984,637	1,705	315,622
<b>2019</b>	5,334,287	5,266,857	(370)	67,060
<b>2020</b>	5,190,769	5,956,440	76,237	(689,434)
<b>2021</b>	5,637,786	6,010,098	60,631	(311,681)
<b>2022</b>	5,573,214	6,417,735	(386,034)	(1,230,555)
<b>2023</b>	5,359,319	6,270,942	83,488	(828,135)
<b>2024</b>	5,304,163	7,192,644	28,702	(1,859,779)
<b>2025</b>	8,462,607	6,560,705	66,478	1,968,380

*2024-25 ACFR pages 138 – 141, Changes in Net Position Last Ten Fiscal Years*

The Grand Jury analyzed revenue and expense for the fiscal periods 2016 – 2025 and noted fluctuations in revenue that appeared inconsistent with expense fluctuations.

- Revenue in fiscal 2024 was less than revenue in fiscal 2016. Overall, revenue declined while expenses steadily increased.
- After fiscal 2017, Net Change in Position dropped significantly and didn't recover until fiscal 2025.

When asked what might have caused the declines in revenue and net position, the City was unable to provide an explanation. The 2024-25 ACFR Changes in Net Position Last Ten Fiscal Years report shows the impact of two factors: 1) Indirect costs had been overallocated and credited to the general fund; and 2) Conservation of water resulted in less revenue.

The Grand Jury analyzed allocated costs for Water and Wastewater Business-Type Activities. The City's 2024-25 ACFR, Management's Discussion and Analysis, Economic Factors and Next Year's Budgets and Rates section included the following statement: "There is \$714,000 less in funds transferred from the Water and Sewer funds for administrative costs due to a new allocation method determined in early 2024". (ACFR, 2024-2025, p. 2)

The City's allocated indirect costs are reported as Interfund charges for services on the Statement of Revenues, Expenses and Changes in Fund Net Position. The statements are found in the City's ACFRs for each fiscal year, which can be seen below in the Appendix.

The chart below summarizes the Statements of Revenues, Expenses and Changes in Fund Net Position for fiscal 2017–2025. The Grand Jury noted Interfund charges for services (cost allocation) steadily increased each year even though revenues and personnel services expenses did not increase each year, until 2025. As a percentage of revenue, the Interfund charges to the Enterprise Funds for shared services (cost allocation) increased from 30% in 2017 to 52% in 2024 for Water, and increased from 18% in 2017 to 36% in 2024 for Wastewater, as displayed in the table below.

Summarized Statements of Revenues, Expenses, and changes in Fund Net Position, Proprietary Funds									
For year ended:	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025
<b>WATER (W):</b>									
Total operating revenues	2,457,698	2,270,224	2,229,367	2,295,614	2,613,289	2,519,592	2,353,715	2,433,539	3,441,843
Personnel services	354,041	379,506	420,984	522,936	447,255	495,575	279,697	559,642	641,718
<b>Interfund charges for services</b>	<b>726,329</b>	<b>838,117</b>	<b>874,193</b>	<b>1,004,772</b>	<b>1,011,522</b>	<b>1,182,152</b>	<b>1,199,387</b>	<b>1,261,494</b>	<b>852,863</b>
Other opg services and supplies	608,626	631,111	590,350	794,074	913,897	869,842	984,153	1,045,753	918,221
Non-opg rev/exp/transf	(42,657)	(61,701)	(26,935)	(55,096)	(356,194)	(130,744)	(5,794)	(55,079)	(120,441)
Change in net position	726,045	359,789	316,905	(81,264)	(115,579)	(158,721)	(115,316)	(488,429)	908,600
For year ended:	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025
<b>WASTEWATER (WW):</b>									
Total operating revenues	3,324,934	3,028,330	3,104,920	2,895,155	3,024,497	3,053,622	3,005,604	2,870,624	5,020,764
Personnel services	266,375	283,978	249,689	364,322	307,020	457,548	242,407	494,737	549,012
<b>Interfund charges for services</b>	<b>589,885</b>	<b>680,710</b>	<b>724,321</b>	<b>830,851</b>	<b>831,627</b>	<b>981,322</b>	<b>990,306</b>	<b>1,041,462</b>	<b>908,934</b>
Treatment costs	1,518,743	1,594,680	1,674,414	1,620,981	1,650,401	1,650,401	1,737,404	1,952,842	2,118,436
Other opg services and supplies	489,958	506,788	662,332	725,130	701,991	754,471	766,376	746,933	486,723
Non-opg rev/exp/transf	(7,706)	(8,416)	32,598	22,353	(17,999)	(49,444)	18,070	(6,000)	102,121
Change in net position	452,267	(46,242)	(173,238)	(623,776)	(484,541)	(839,564)	(712,819)	(1,371,350)	1,059,780
6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	
<b>WATER:</b>									
<b>allocation</b> as % of revenue	30%	37%	39%	44%	39%	47%	51%	52%	25%
6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	
<b>WASTEWATER:</b>									
<b>allocation</b> as % of revenue	18%	22%	23%	29%	27%	32%	33%	36%	18%

In 2025, based on the 2024 Cost Allocation study, the Interfund charges for services were 25% and 18% of revenue for Water and Wastewater respectively. This is the result of the use of the updated CAP. The Grand Jury asked the City to explain what factors contributed to the significant change from the old CAP to the new CAP. The City provided no explanation.

The Grand Jury calculated what the impact to the Water and Wastewater Enterprise Funds might have been had the cost allocation been 25% and 18% respectively, as a percentage of revenue over the past nine years. The results can be found on the following Interfund charges for services (cost allocation) analysis table for both Water and Wastewater Enterprise Funds. The 25% column represents what the Interfund charges could have been under an updated CAP. The “Actual” column represents the actual Interfund charges allocated to Water and Wastewater Enterprise Funds in each year. The “Difference” column is the mathematical computation of the 25% column minus the Actual column.

Interfund charges for services (cost allocation) analysis showing the approximate overallocation of \$5.5 million:

<b>WATER</b>	<b>25%</b>	<b>Actual</b>	<b>Difference</b>
6/30/2018	567,556	838,117	(270,561)
6/30/2019	557,342	874,193	(316,851)
6/30/2020	573,904	1,004,772	(430,869)
6/30/2021	653,322	1,011,522	(358,200)
6/30/2022	629,898	1,182,152	(552,254)
6/30/2023	588,429	1,199,387	(610,958)
6/30/2024	608,385	1,261,494	(653,109)
			<u>(3,192,802)</u>
<b>WASTEWATER</b>	<b>18%</b>	<b>Actual</b>	<b>Difference</b>
6/30/2018	545,099	680,710	(135,611)
6/30/2019	558,886	724,321	(165,435)
6/30/2020	521,128	830,851	(309,723)
6/30/2021	544,409	831,627	(287,218)
6/30/2022	549,652	981,322	(431,670)
6/30/2023	541,009	990,306	(449,297)
6/30/2024	516,712	1,041,462	(524,750)
			<u>(2,303,704)</u>

Source: Summarized Statements of Revenue, Expenses, etc. as referenced above.

### **Water and Wastewater Infrastructure**

The operation and maintenance of the City’s water and wastewater systems are funded by revenue from the fees charged to their customers. Financially, the water utility is operated as a self-supporting enterprise relying primarily on the revenues from water rates to fund the costs of providing services and maintaining the system.

At the City Council Meeting on October 24, 2024, the Public Works Superintendent presented an overview of the water infrastructure including these statistics:

- The City owns, operates and maintains approximately 36.7 miles of water mains and pipelines, three storage facilities, one booster pump station, one blending pump station, four active groundwater wells, and two arsenic treatment systems to produce, treat, and distribute water to the City’s water customers.

- The City provides potable water to approximately 2,975 water meter accounts as well as providing water through the City's water G tower located at the City Corporation Yard. The City's municipal water system produced approximately 289 million gallons of treated drinking water in 2023. [View the Dante Del Prete Presentation to Sebastopol City Council October 15, 2024 Here.](#)

## **Overview of the Conditions of the Systems**

The water systems have elements that were installed over 100 years ago. The systems demonstrate the accumulated problems from deferred maintenance. The lack of capital investment in equipment improvements puts the City at risk of water supply failure or flooding in the streets. Many of the pipes in the system are beyond their expected life, some are over 100 years old. Indeed, the City's financial records show that the critical components have been fully depreciated.

The condition and needs of the systems are very well documented. The recently completed Master Plan calls for repairing, replacing, and bringing the systems into good condition. While there has been an on-going program to replace the aging pipes, because of the underfunding of the water system budget, the program is not getting ahead of the aging mains – creating potential (and actual) failures, and requiring emergency repairs. GHD Sewer Master Plan presented to the City by GHD: [View the GHD Sewer Master Plan Final April 21, 2026 Here.](#)

Replacing mains and branch lines is expensive and disruptive. However, it is far less expensive and disruptive than leaks and emergency repairs that can leave households or businesses without services for extended periods. A loss of service to a potable water main also leaves a section of the city without water at pressure to fight a fire – that is only a risk unless it happens when there is a fire, then it is a disaster. Clearly failures in the sanitary sewer system can cause health and environmental disasters, besides the obvious impact to homes and businesses. Storm drain failures result in street flooding,

with the attendant costs to homes and businesses in the flood zone, as has happened in the past. The City is currently experiencing water leakage into the sanitary sewer system, which causes the City to pay more for water treatment than if the system were properly sealed.

The City is completely dependent on wells for potable water. Fortunately, the aquifer is adequate to provide the needed water at current usage rates. Besides pumping, the water must be treated for contaminants, stored and then pumped through often old, to very old, pipes to the end users, hydrants, homes, businesses etc. It is critical that the wells and the pumping and treatment plants be kept in reliable, dependable condition. The master plan includes projects and programs to upgrade or repair the well and treatment sections of the potable water system.

In the City, water comes from several city owned wells. After treatment in one of several plants, it is pumped to the meters via a system of main and feeder lines. The City has a combined potable and fire water system, which is not uncommon. In this case, the same pipes, particularly the mains, feed the fire hydrants and the potable water distribution system.

The storm water system is critical to prevent flooding, particularly in the downtown area. Keeping standing water off the streets is an important safety measure. The City's storm water system has two sixty-inch pipes that discharge into the Laguna de Santa Rosa. These require regular maintenance, which primarily consists of debris removal to keep capacity up. This maintenance has not happened, leaving the pipes at about 50% capacity. This has created the potential for flooding in the downtown area, as has occurred in the past. Without the regular debris removal, the buildup is not only larger, but much more difficult and costly to remove.

The City uses the Santa Rosa Sewage Treatment Plant (STP) to treat its sanitary sewage. The City pays a fee to Santa Rosa based on the amount of sewage going through the pipe to the Santa Rosa STP. Leakages in the system cause two kinds of problems:

1. If sewage leaks out, there is public health and ground water problem.
2. If water leaks in, then the city is paying for ground water going to Santa Rosa. (This is primarily a gravity, non-pressurized system, so ground water can leak into the pipes.)

The recently completed Master Plan does a good job of documenting and estimating the repair/replacement costs to the systems. Sebastopol citizens and rate payers need to be aware of the condition, challenges and potential costs of failures of the systems. The list below is not a complete list of planned repair and capital projects, but a sampling of the types of projects and some of the costs and risks involved. Many of these should have been dealt with years ago.

1 – Pleasant Hill Loop (Estimate \$900,000 +): This is a critical safety element lacking in the water system. Redundancy is common to any well-engineered system, particularly for health or safety related systems. In good practice, fire/potable waters system main lines are loops so that an individual break or leak can be isolated and water is still available to users, fire hydrants etc. Currently there is a section of the water system that is not looped and a rupture in this line, be it a leak or a rupture caused by a seismic event, could leave more than half of the city without water pressure to fight a fire for as long as it takes to repair the rupture. This could be catastrophic. (For example, although the City's 2005 Master Water Plan recommended that the Pleasant Hill looping project be completed, the City has yet to fund and complete the project.)

2 – Well 4 Replacement (Estimate \$3 million): Well 4 is the workhorse of the City's water system. This is a multi-year, multi-faceted program which needs reliable, consistent funding to ensure the entire project is completed in a timely matter.

3 – There are significant water main and branch projects in the Master Plan. These are projects that need to be engaged and completed to avoid costly and disruptive water outages. It is much less expensive and inconvenient to replace mains as planned projects rather than on emergency basis.

4 – Clearing the 60-inch storm drains to the Laguna. Storm drains are part of the funded maintenance program for the City's infrastructure system. Failure to permit, fund and execute the clearing of the outfall lines puts parts of the city, particularly the downtown, in jeopardy of flooding in the event of major rain events, such as atmospheric rivers.

### **Sebastopol Wasn't the Only One Not Paying Attention**

This Grand Jury notes that Sonoma County's independent Local Area Formation Commission (LAFCO) has an oversight role in the City's water and wastewater enterprises. The current 2025-2026 Grand Jury report on LAFCO notes:

"LAFCOs are responsible for coordinating logical and timely changes in local governmental boundaries; conducting special studies that review ways to reorganize, simplify, and streamline governmental structure; and prepare mandatory Sphere of Influence reports and Municipal Service Reviews for each city and special district within the county". The last Sebastopol Municipal Service Review by LAFCO was in 2006.

### **CONCLUSION**

The Grand Jury was encouraged that the City has taken steps to right the ship. After conducting overdue studies, it has reduced the allocation of indirect costs to the Enterprise Funds and adopted painful but necessary water and wastewater rates. In November 2025, the City Council reinstated the Enterprise Fund Oversight Committee that will advise the City regarding the operation of the Enterprise Funds. The Grand Jury

views this as a positive step to ensure future compliance and improved performance of the Enterprise Funds for their intended purpose.

## **FINDINGS**

F1. The Grand Jury estimated that the City's failure to update its Cost Allocation Plan for more than 20 years resulted in the City overallocating approximately \$5.5 Million of indirect costs to the Enterprise Funds. This was non-compliant with Proposition 218 and left the Enterprise Funds without sufficient money for maintenance and capital improvements.

F2. When the City updated its Cost Allocation Plan in 2024, reduced allocation of indirect costs left approximately \$714,000 in the Enterprise Funds to be used for systems maintenance and capital improvements.

F3. Because the rate study conducted by the City in 2019 underestimated a reduction in consumption due to conservation measures, the rate adjustment for 2019-2023 was insufficient to keep pace with escalating costs. This resulted in the need for a 37% increase on July 1, 2024, which has been difficult for many ratepayers to accept.

F4. In November 2025, the City Council reinstated an Enterprise Fund Oversight Committee. This promises to provide the City Council with insights and expertise regarding decisions concerning oversight of these critical systems.

## **RECOMMENDATIONS**

The Grand Jury recommends that the Sebastopol City Council:

R1. By October 1, 2026, commit to fully comply with Proposition 218 by conducting cost allocation and rate studies at least within 3-5 years intervals and adjusting its cost allocation and ratepayer fees accordingly.

R2. By October 1, 2026, reach an agreement on the dollar value of mis-allocated indirect costs and commit to a repayment schedule to restore funds transferred from the Enterprise Funds to the general fund by overallocation of indirect costs. This money can be used to implement critical improvements identified in the Master Plan.

R3. By October 1, 2026, consider adding a Certified Public Accountant to the Enterprise Fund Oversight Committee to assist the City Council and City Manager with fiscal compliance, analysis, and transparency.

**REQUIRED RESPONSES**

Pursuant to Penal Code section § 933.05, the following response is *required*:

The City of Sebastopol’s City Council: respond to F1-F4 and R1-R3 within 90 days of receipt of this report.

**APPENDIX**

1. Timeline of Events at the City of Sebastopol below:

Date	Description of Study	Action
2000	Rate and Cost Allocation Study	Implemented
2005	Master Water Plan	Recommended implementing the Pleasant Hill 14” main loop.
2008	Master Water Plan	“Water and sewer fees show a small increase at this time due to the increases indicated in the yearly rate study.”
2012	Water and Sewer Rate Study	Rates roughly doubled (about \$10.79 a month to

		\$24.92 and the sewer charge would go from about \$25.67 to \$49.92)
<b>2019</b>	Willdan Water and Sewer Rate Study	Rates increased effective 1-1-2020
<b>2024</b>	Raftelis Water and Sewer Rate Study	Implemented in 2024, the City chose the lower rate option (current combined bill of \$114.24 increased to \$151.80)
<b>2024</b>	Clear Source Cost Allocation Study	Implemented in 2024
<b>2026</b>	GHD Water Master Plan	Accepted by the City Council

2. Statements of the City’s ACFRs for each fiscal year below:

<b>Fiscal year</b>	<b>Link</b>	<b>Page</b>
<b>The City’s Documents Directory</b>	<a href="#">View the City’s Document Directory Here</a>	
<b>2025</b>	<a href="#">View FY 2024-2025 Annual Comprehensive Financial Report Here</a>	45 (55 PDF)
<b>2024</b>	<a href="#">View FY 2023-2024 Annual Comprehensive Financial Report Here</a>	37 (51 PDF)
<b>2023</b>	<a href="#">View FY 2022-2023 Annual Comprehensive Financial Report Here</a>	39 (55 PDF)

<b>2022</b>	<a href="#">View FY 2021-2022 Annual Comprehensive Financial Report Here</a>	41 (57 PDF)
<b>2021</b>	<a href="#">View FY 2020-2021 Annual Comprehensive Financial Report Here</a>	39 (55 PDF)
<b>2020</b>	<a href="#">View FY 2019-2020 Annual Comprehensive Financial Report Here</a>	39 (55 PDF)
<b>2019</b>	<a href="#">View FY 2018-2019 Annual Comprehensive Financial Report Here</a>	39 (55 PDF)
<b>2018</b>	<a href="#">View FY 2017-2018 Annual Comprehensive Financial Report Here</a>	39 (55 PDF)
<b>2017</b>	CAFR for 2017 is not available online and had to be requested from City of Sebastopol.	39 (51 PDF)

Reports issued by the Grand Jury do not identify who have been interviewed during the investigation. Penal Code § 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.