

CITY OF SEBASTOPOL CITY COUNCIL
AGENDA ITEM REPORT FOR MEETING OF: March 4, 2025

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To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
 Mark Rincon-Ibarra – Director of Public Works/City Engineer
 Toni Bertolero – Interim Engineering Director
Subject: FY24-25 Quarter 2 Financial Update for Enterprise Funds

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RECOMMENDATION:

Staff recommends the Sebastopol City Council receive year-to-date financial information for the enterprise funds.

EXECUTIVE SUMMARY:

Based on the best available information as of December 31, 2024, the city's water fund has billed 49% of budgeted revenue for the full fiscal year. Expenses are at 49% of full fiscal year. Wastewater has billed 43% of budgeted revenue of full year. Expenses are 44% of full year. These results are in line with what we would expect.

BACKGROUND:

The attachments summarize the financial results for the Water and Wastewater enterprise funds as of this writing. For revenues, the "Year to Date Actual" columns reflects billing of usage through November. For expenses the "Year to Date Actual" columns reflects expenses through December.

The Water and Wastewater enterprise funds have been substantially underfunded until rate increases began on July 1, 2024. All activities to maintain these services, including operations, maintenance, billing and collections, administration, financing, and related debt service, are accounted for in these funds. The principal sources of revenue are charges to customers for water consumption, wastewater collection, and fees related to providing new water and wastewater services. The City has recognized more revenue due to the recent water and wastewater rate increases. On the expenditure side, water is trending close to the 49% mark for the second quarter, while wastewater is below this mark, which is due to the non-linear nature of expenses.

ANALYSIS:

Water:

The quarterly report for the water fund encompasses the billing period from July to November. Historically, water usage tends to be higher in the first and second quarters due to the summer months, which typically see increased water consumption. As we transition into the winter months, we expect water usage to decline. However, it is anticipated that water revenue will eventually align with the projected revenue as the year progresses. Operating expenditures, which include salaries and wages, benefits, contracted services, debt service payments, cost allocation plan, and transfers out, are tracking at 49%, which is on target for this time of year.

Wastewater:

The quarterly report for the wastewater fund covers the billing period from July to November. This fund's revenue is at 43%, while expenditures are at 44%, which is below the 50% mark mainly due to timing of the Subregional contract with Santa Rosa for use of their water treatment plant. The Subregional invoicing and payment for the second quarter is for only 5 months and not 6 months and at the end of the fiscal year, the full contractual cost will be expended.

In the December billing statement, the City included a flyer that provides information and education on managing your water and wastewater usage. This flyer offers valuable tips on how to save water and money. To reinforce these important messages, the same flyer will be included as an insert in the February billing statement. This repetition aims to remind customers of effective ways to manage their water and wastewater usage.

Based on the two quarters of results since implementing the new rates, staff recommends continuing to track revenues and expenses quarterly.

FUTURE BILLING: Alignment of Billing Cycles and Rate Changes:

The City bills for water and wastewater every two months. Past practice includes usage in June and July being combined into one bill. This becomes problematic when rates change, as bills reflect June rates for some usage and July rates for other usage. This occurred last year, which caused considerable confusion among residents.

For the coming summer, we plan to change the billing cycle to align it with timing of upcoming rate changes. For example, July billing this year will only cover June, while in the prior years it covered June and July. September billing will cover July and August and reflect the rate increase that becomes effective July 1st.

The recent and upcoming billing cycles will be as follows:

- **February 2025:** Covers December 2024 and January 2025
- **April 2025:** Covers February 2025 and March 2025
- **June 2025:** Covers April 2025 and May 2025
- **July 2025:** Covers June 2025 only
- **September 2025:** Covers July 2025 and August 2025 (New water/sewer rates will be applied)

Following this pattern ensures that utility statements issued in the new fiscal year will reflect only the new rates.

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.

FISCAL IMPACT:

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

RESTATED RECOMMENDATION:

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

OPTIONS:

There are no options to consider.

ATTACHMENTS:

Attachment A – Quarterly Financial Reports

APPROVALS:

Department Head Approval: Approval Date: 2/1/25

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: 2/1/25

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

Account Code (f applicable) _____

City Attorney Approval: Approval Date: _____

City Manager Approval: Approval Date: 2/6/25

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WATER OPERATING FUND FY24-25 QUARTER 2 REPORTING

Description	2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Preliminary Year-end Projection	Y-T-D Actual 12/31/24	Footnotes	% of Adjusted Budget
OPERATING REVENUE							
Usage Charges - Residential	2,238,915	3,191,860	1,691,860	1,691,860	838,079	1	49.5%
Usage Charges - Commerical	-0	-0	1,500,000	1,500,000	716,942	1	47.8%
Interest Income	82,780	75,000	75,000	75,000	46,642		62.2%
Backflow Inspections	-0	650	650	650	-0		0.0%
New Service Fee	8,700	36,600	36,600	36,600	5,250		14.3%
Water Meter Sales	190	8,600	8,600	8,600	-0		0.0%
Penalties	21,591	15,000	15,000	15,000	9,397		62.6%
Other Charges	279	2,145	2,145	2,145	-0		0.0%
Insurance Claims	515	-0	-0	-0	-0		0.0%
Miscellaneous Income	155,392	43,000	43,000	43,000	874		2.0%
TOTAL REVENUE	2,508,362	3,372,855	3,372,855	3,372,855	1,617,184		47.9%
OPERATING EXPENDITURE							
Salaries & Wages	320,497	357,977	374,777	347,220	165,939		44.3%
Benefits	158,712	223,277	223,966	201,320	98,125		43.8%
Contracted Services	338,990	255,820	255,820	261,320	73,485		28.7%
Services & Supplies	135,842	183,350	183,350	193,350	64,199		35.0%
Special Programs	12,596	22,200	22,200	22,200	10,266		46.2%
Equipment (under \$10K)	-	-	-	-	-		0.0%
Vehicle Expense	48	10,000	10,000	10,000	-		0.0%
Conference & Training Expense	2,865	5,000	5,000	5,000	3,694		73.9%
Utilities	197,837	247,250	247,250	305,000	155,748		63.0%
Telecommunications	5,729	7,350	7,350	7,000	2,658		36.2%
Bad Debt Expense	13,205	10,000	10,000	10,000	393		3.9%
Allocated Insurance	90,730	79,530	79,530	79,530	25,912		32.6%
Capital Outlay	-	27,750	27,750	27,750	13,852		49.9%
Debt Service Payments	380,175	318,656	318,656	318,656	277,508		87.1%
Cost Allocation Plan	1,261,494	852,863	852,863	852,863	426,431		50.0%
Transfers Out	940,341	120,000	120,000	120,000	24,233		20.2%
TOTAL EXPENDITURES	3,859,061	2,721,023	2,738,512	2,761,209	1,342,443		49.0%
Net Surplus/(Deficit)	(1,350,699)	651,832	634,343	611,646	274,741		
<p>¹ The year-to-date amount reflects data billing from July-November billing, as the City operates on a bi-monthly billing cycle. Consequently, the billing for December and January will occur in February.</p>							



WASTEWATER OPERATING FUND FY24-25 QUARTER 2 REPORTING

Description	2023-24 Actual	2024-25 Adopted Budget	2024-25 Adjusted Budget	Preliminary Year-end Projection	Y-T-D Actual 12/31/24	Footnotes	% of Adjusted Budget
OPERATING REVENUE							
Service Charge - Residential	2,813,939	4,647,523	2,277,323	2,277,323	994,467	1	43.7%
Service Charge - Commercial	-0	-0	2,370,200	2,370,200	985,476	1	41.6%
Interest Income	20,194	-0	-0	-0	11,880		0.0%
Penalties	15,153	2,500	2,500	2,500	8,203		328.1%
Insurance Claims	-0	8,729	8,729	8,729	-0		0.0%
Miscellaneous Income	32,552	1,000	1,000	1,000	-0		0.0%
Transfers In	-0	-0	-0	-0	-0		0.0%
TOTAL REVENUE	2,881,838	4,659,752	4,659,752	4,659,752	2,000,026		42.9%
OPERATING EXPENDITURE							
Salaries & Wages	282,963	306,893	322,383	322,383	137,471		42.6%
Benefits	139,103	194,998	195,644	195,644	84,151		43.0%
Contracted Services	84,665	105,550	105,550	105,550	17,964		17.0%
Subregional Cost	1,952,842	2,118,435	2,118,435	2,118,435	882,682		41.7%
Services & Supplies	29,971	97,200	97,200	97,200	11,897		12.2%
Special Programs	-	1,000	1,000	1,000	-		0.0%
Vehicle Expense	11,834	10,000	10,000	10,000	1,708		17.1%
Conference & Training Expense	8,458	8,000	8,000	8,000	1,267		15.8%
Utilities	61,875	78,852	78,852	78,852	26,092		33.1%
Telecommunications	1,692	2,500	2,500	2,500	536		21.4%
Bad Debt Expense	19,020	10,000	10,000	10,000	577		5.8%
Allocated Insurance	68,625	55,735	55,735	55,735	27,868		50.0%
Capital Outlay	-	-	-	-	-		0.0%
Debt Service Payments	181,237	178,656	178,656	178,656	150,645		84.3%
Cost Allocation Plan	1,041,462	908,934	908,934	908,934	454,467		50.0%
Transfers Out	800,532	32,000	32,000	32,000	32,105		100.3%
TOTAL EXPENDITURES	4,684,279	4,108,753	4,124,889	4,124,889	1,829,430		44.4%
Net Surplus/(Deficit)	(1,802,441)	550,999	534,863	534,863	170,596		
<p>¹. The year-to-date amount reflects data billing from July-November billing, as the City operates on a bi-monthly billing cycle. Consequently, the billing for December and January will occur in February.</p>							