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**City of Sebastopol**

March 20, 2025

To: City Council

From: Don Schwartz, City Manager

Re: Oversight Committee

You have expressed interest in an Oversight Committee for the Enterprise Funds, and lesser interest in Oversight for Measure U. The Council also asked staff to look into this issue and report back by the April 1 goal-setting session.

**Enterprise Funds**

It appears that the primary interest in an Oversight Committee is to increase public confidence that the Enterprise Funds (Water and Wastewater) are used for their intended purposes. We believe that our practices ensure that the City uses the funds appropriately. We also acknowledge that we could communicate this more effectively.

Members of the public have raised understandable concerns about the City's past practices in allocating costs between the Enterprise and General Funds. We are using a cost allocation plan developed and adopted a year ago. We plan to fully re-visit that plan within two years. We make minor adjustments each year to reflect the most recently available information.

We are legally required to ensure that the Enterprise Funds are not subsidizing the General Fund. An independent third party with deep expertise in local government finance reviews these practices annually as part of the City's annual audit. The audit has never (to staff's knowledge) found any problems with our practices regarding keeping the Enterprise Funds separate from the General Fund.

Additionally, the annual budgets and quarterly reports reflect revenues and expenditures for these funds. These are publicly available documents. They are considered at public meetings held by the Budget Committee and the full Council. We are exploring the potential for a software service offered by OpenGov that might allow direct public access to view our financial information.

We are preparing master plans for both systems; the RFPs, contracts, and reports from those efforts are or will be public. The reports will provide in-depth information on the status of the systems and infrastructure needs.

Given the above, staff would find it helpful to understand the Council's expectations regarding the role of an Oversight Committee in ensuring that the Enterprise Funds are kept separate from the General Fund.

#### Measure U

The purpose of Measure U is to maintain City services paid by the General Fund, which can be used for any public purpose.

The Measure states:

*"Sebastopol Public Safety, Roads, City Services Measure: To maintain Sebastopol's City services such as 911 emergency medical/police/fire response, wildfire/emergency preparedness, maintenance of streets/roads, parks/trails, library, youth and senior services, retaining/attracting local businesses; and for general government use, shall the measure establishing a ½-cent sales tax generating approximately \$1,520,000 annually, terminating after 12 years, requiring audits, public spending disclosure, all funds used locally, be adopted?"*

Additionally, the Council adopted a four-point policy on the use of Measure U funds:

1. 40% of the revenue shall be allocated for maintaining and repairing City roads, streets, drainage, and parks.
2. Sufficient revenue shall be allocated for maintaining public safety, including retaining existing Police Department staffing levels and providing sufficient funding for fire services after the reorganization of such services with the Gold Ridge Fire Protection District.
3. If there is sufficient revenue allocated for items 1 and 2 above remaining revenues will be allocated to maintain Sebastopol's City services such as 911 emergency medical/police/fire response, wildfire/emergency preparedness, maintenance of streets/roads, parks/trails, library, youth and senior services, retaining/attracting local businesses; and for general government use.
4. . . . any revenue generated by the Sebastopol Public Safety, Roads, City Services Measure during FY 2024-2025 shall not be allocated until the fourth quarter of the fiscal year, once the actual revenues and expenditures for FY 2024-2025 are clearer.

Staff recommend ensuring transparency on the use of Measure U funds as follows:

- a. Track and report Measure U revenues independently of other funding sources. This can include the budget and quarterly reports.
- b. Consistent with Policy 1 above, allocate 40% for infrastructure to the City's existing Building, Infrastructure, and Facilities Reserve Fund (this is one of two funds we

characterize as “Asset Preservation” with an ultimate goal of allocating \$900,000/year). The Council could then fund projects aligned with the policy from that Reserve Fund. This ensures that this Fund has a ‘floor’ of funding. The General Fund could provide additional funding as well.

- c. Consistent with Policy 2 above, ensuring sufficient funding for existing Police staffing and Fire services by ensuring that no existing positions in the Police Department are eliminated, and that we meet our contractual obligations for funding the Gold Ridge Fire District as part of consolidation.  
Fund. As with anything, additional complications adds complexity and the chance of errors.
- d. Consistent with Policy 3 above, allocate remaining Measure U funds to the General Fund, and do not attempt to track Measure U expenditures separately from other General Fund expenditures. Doing so would complicate the General Fund and increase the potential for errors in allocation, tracking, and reporting.
- e. Consistent with Policy 4 above, allocate Measure U revenue generated in FY 24-25 to the General Fund as a whole.

We believe that the recommendations above will provide transparency on the use of Measure U funds, and require a minimum of staff time.

#### Other Potential Roles for an Oversight Committee

Councilmembers have expressed a variety of potential other purposes for the Oversight Committee. These include:

1. Make recommendations on use of the funding.
2. Saving money.
3. Saving staff time.
4. Monitoring the quality of the City’s drinking water.

Councilmembers also expressed concerns regarding the time and money required to support a Committee.

To respond to each of these interests:

1. Make recommendations on the use of funding: Staff need greater clarification on the Council’s intent should it desire to have an Oversight Committee recommend uses of the Enterprise Funds or Measure U. For example, this could entail adding Oversight Committee members to the Council’s Budget Committee, which would provide the Oversight Committee a formal opportunity for detailed review, but would complicate budget preparation. Or the Oversight Committee could take a higher-level view of the budgets, as members of the public can do today.
2. Saving money: Staff do not believe that an Oversight Committee would save money. Doing so would require a substantial ‘deep dive’ into City operations, capital plans, and financing, together with subject matter expertise. If the Council desires to obtain a third-party view of our operations and capital plans we suggest hiring a third party with appropriate expertise to conduct reviews.

3. Saving staff time: Staff do not believe that an Oversight Committee would save staff time. Instead, adding any Committee requires staff time for support, particularly if it is a Standing Committee requiring compliance with the Brown Act. Also, staff would likely need to provide extensive information and training to Committee members.
4. Monitoring the quality of the City's drinking water: The City provides regular reports on water quality to the state, consistent with regulatory requirements. We could add these reports to the City's website or provide written copies to the Council and/or members of the public. Staff will inform the Council should any issues of water quality emerge.

#### Additional Considerations

Regardless of the scope/purposes of any Committee, factors to consider include:

- Recommend Committee of three to five members
- Recommend application process
- Recommend appointments by Council majority
- Recommend terms of four years, potentially staggered
- Recommend Sebastopol residency required
- Prefer but not require background in public finance, infrastructure, and water/sewer systems
- Require no conflict of interest
- Require commitment to participate
- Require participation in training, including commitment to read relevant City reports and watch presentations as designated by City staff (budget, audit, water and wastewater master plans, cost allocation plan, Fall 2024 report on water system, etc.)

Require commitment to Brown Act compliance