

ITEM #:	<u>38</u>
DATE:	<u>04-14-26</u>
DEPT:	<u>W&amp;PC</u>

## COUNCIL ACTION FORM

**SUBJECT: WATER AND SEWER RATE ADJUSTMENTS FOR FY 2026/27**

### **BACKGROUND:**

Each year as part of the annual budget process, staff updates a model for the Water and Sewer Funds that reflects current and projected operating and capital expenses over the next ten years, and the resulting annual ending fund balances in each of the two separate funds.

This model is used to establish a long-range pattern of rate increases that will fully finance these self-funded enterprise utilities, including an operating reserve that is slowly being increased to a target of 25% of the annual operating budget.

**During the development of the FY 2026/27 budget, staff determined that a three-and-one-half percent (3.5%) increase to water rates and a five-and-one-half percent (5.5%) increase to sewer rates would be needed, effective July 1, 2026. This is the same pattern of rate adjustments as was anticipated in the staff presentation one year ago. While the need for an increase was discussed during the budget presentations, no formal action has yet been taken by Council to adopt these new rates.**

At the City Council the Staff will present a summary of the fund balance analysis in a format that is very similar to what has been used in prior years. Highlights from the attached slides will be shared at the Council meeting in a brief presentation.

### **ALTERNATIVES:**

1. Direct staff to prepare an ordinance enacting a 3.5% increase in water rates and a 5.5% increase in sewer rates, effective July 1, 2026.
2. Direct staff to prepare an ordinance to enact some alternate rate adjustments.
3. Do not take any action to adjust water and sewer rates at this time, and provide guidance to staff on expenditure reductions in order to maintain positive balances in the Water and Sewer Funds.

### **CITY MANAGER'S RECOMMENDED ACTION:**

**The proposed rate increases are necessary to fund the ongoing operations and maintenance budget plus the anticipated capital improvements projects. The recommendation is part of a consistent, predictable pattern of rate increases projected over the next ten years, and reflects a continuation of the pattern shown to Council at this time last year.** Therefore, it is the recommendation of the City Manager that the City Council adopt Alternate No. 1, as described above.

**ATTACHMENT(S):**  
[FY 2026-27 Water & Sewer Rates.pdf](#)