Questions and Answers

How Water and Sewer Customers Share City Overhead Costs (FY 2026-27)

The City received comments from a member of the public about the proposed changes to how water and sewer Enterprise Funds share the cost of overhead and central administrative services. Our responses are below.

Background

- Water and sewer are paid for separately. Water and sewer services are paid for by customers' utility bills, not by taxes. That money is kept in two separate accounts, the Water Fund and the Sewer (Wastewater) Fund.
- Some City staff work on water and sewer part of the time. The City Council, City Manager and Administrative Services (finance) all spend some of their time on water and sewer business. It is fair for the water and sewer funds to pay for that share of their time, along with a share of overhead and related costs necessary to provide services to the sewer and enterprise.
- A Cost Allocation Plan sets each share. The plan decides what percentage of these costs the Water and Sewer funds pay. The City is hiring a consultant to prepare a new plan to go into effect on July 1, 2027 for FY 27/28
- The proposal for consideration on the October 20 agenda is an interim measure to make changes to make certain changes to the plan pending completion of the new study.
- The new cost allocation plan will incorporate more comprehensive time tracking over an extending period of time. The proposed interim adjustments are based on limited time tracking and related adjustment to establish reasonable estimates.
- The figures come from the current plan. They are based on the City's current Cost Allocation Plan, using actual costs from FY 2024-25.

CITY COUNCIL

The proposed revised allocation for the City Council 17% from the Water Fund and 13% from the Sewer Fund, or 30% in total.

How did the City come up with the percentages?

1. The City reviewed 2026 meeting recordings and documented how much time was spent discussing water and sewer items as a percentage of total meeting time. Topics that involved both water and sewer, such as budget hearings, were split evenly between the two funds.
2. The allocations were increased to account for time certain Councilmembers spend at meeting of the Budget Committee and Enterprise Funds Oversight Committee.
3. The allocation were increased to account for estimates of work outside of Council meetings. Attendance at Council meetings is only a portion of the time councilmembers dedicate to the job. What Councilmembers spend time on outside of Council meetings is not directly proportional to the time spent on particular topics in meetings. Reviewing staff reports, meeting with staff, and corresponding with constituents about water and sewer issues take up a disproportionate amount of time for Councilmembers outside of meetings compared to other agenda items.

Why does the City look only at 2026?

This is interim allocation that will only apply for FY 26/27, so looking only at 2026 was appropriate. The City is retaining an expert consultant to prepare a new comprehensive cost allocation plan to go into effect on July 1, 2027 for FY 27/28.

Are the allocation based on exact actual times or estimates?

The allocation is based on a reasonable estimate of the portion of a councilmember's time spent on water and sewer related matters. The estimate is informed by the percentage of Council meetings dedicated to water and sewer items. Actual meeting times (based on video recordings) were used to determine these percentages for meetings between January 1 and September 1 2026, and staff estimated the percentage of meeting time for the remainder of the year.

Why not rely solely on the percentage of Council meetings spent on enterprise matters? A councilmember's job consists of more than just attending meetings, and Councilmembers' spend time on water and sewer outside of meetings. They also read reports, meet with staff questions, speak with constituents, and attend related City committee and regional agency meetings.

Why include the Budget Committee and the EFOC? Councilmembers sit on both committees, and much of their work in 2026 was about the water and sewer funds. Leaving them out would undercount the Council's water and sewer work.

A member of the public calculated between 3.5% and 11.9%. Why is the City's number higher?

The two calculations were done differently in the following ways

1. The City's number is based only on 2026. The member of the public's lower figures include 2025, when the Council handled very little water and sewer business. If the numbers included 2024, when significant time was spent on the new water rate study and rate implementation, the number would likely be higher than when only 2026 is considered. The City only considered 2026 because this is an interim allocation that will only apply for this current fiscal year.
2. Based on time stamps on Zoom meeting recordings, the City determined that 13.6% of Council meetings were spent on Enterprise Fund related items between January and September 1, 2026. Staff estimated that time spent on Enterprise Fund items between September 1 and December 31, 2026 would increase that percentage to approximately 19%.
3. The member of the public's calculation only includes council meeting time. The allocation was increase to 30% to account for the time Councilmembers spend during the Budget Committee meeting and EFOC on water and sewer related items, as well as time Councilmembers spend on Enterprise Fund matters outside of meetings.

Will the City keep tracking the Council's time?

The City is retaining an expert consultant to prepare a new comprehensive cost allocation plan. Meeting records are kept for every Council meeting, and agendas and minutes are kept for the committees. The new Cost Allocation Plan will incorporate this information, and the plan will be updated every three to five years.

CITY MANAGER

Why is the City Manager also charged 17% to Water and 13% to Sewer?

The City Manager attends every Council, Budget Committee and EFOC meeting. However, most of the City Manager water and sewer work happens outside those meetings. The City Manager also spends a lot of time outside meetings on water and sewer, including:

- the Water Master Plan, rate issues and the cost allocation review
- answering Council questions about water and sewer
- meetings with the City's attorneys, consultants and staff
- regional meetings with the County and other cities

- meetings with State representatives about advocacy and grants for water and sewer projects

The City Manager has been tracking time and the 17% and 13% allocations are based on roughly time tracking, slightly decreased for consistency with the Council allocations.

ADMINISTRATIVE SERVICES (Finance)

Finance staff recorded 14.7% of their time on water and sewer. Why charge 25%?

From March through August 2026, Administrative Services staff recorded 745 of 5,080 hours (14.7%) on water and sewer work. The proposal charges 25%: 12.5% to Water and 12.5% to Sewer. The six months of time records were a first step and don't capture all of the water and sewer work. They leave out work that happens at other times of the year or isn't recorded by task, such as preparing the annual budget, the annual audit, utility billing support, rate study support and closing the books at year end, none of which is captured by time tracking as Enterprise Fund related work. The 25% is a temporary figure for FY 2026-27. It will be updated with a full year of time records and through the new Cost Allocation Plan.

How Overhead Costs Are Calculated? Will one-time costs and costs that only benefit the General Fund be taken out?

The proposal does not change the allocable costs under the cost allocation plan. The City is retaining an expert consultant to prepare a new comprehensive cost allocation plan, which will include a review of all allocable costs.

Will charges be checked against actual costs at the end of the year?

The current plan uses actual costs from an earlier year, adjusted for inflation. Staff will ask the new consultant to look at comparing charges to actual costs at the end of each year.