



# Staff Report

**CITY OF UPLAND**  
"The City of Gracious Living"

DATE: March 23, 2026  
TO: MAYOR AND CITY COUNCIL  
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SUBJECT: SET A PUBLIC HEARING AND DIRECT STAFF TO PREPARE AND MAIL A PROP 218 NOTIFICATION FOR WATER, RECYCLED WATER, AND SEWER RATE ADJUSTMENTS

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## RECOMMENDED ACTION:

It is recommended that the City Council: 1) set a public hearing tentatively for June, 8, 2026, to consider proposed water and recycled water service rate adjustments to become effective July 1, 2026, and sewer service rate adjustments to become effective July 1, 2026; 2) direct staff to prepare and mail a Proposition 218 notice; 3) receive and file the Water, Recycled Water, and Wastewater Rate Study; and 4) consider the rate schedules and related adjustments as recommended by staff for inclusion in the Proposition 218 notice and subsequent City Council action.

## GOAL STATEMENT

The proposed action supports the City's goal of ensuring customer rates are cost-effective, equitable, and generate the necessary revenue to cover operational, debt service, capital investments, and reserves to meet program requirements.

## BACKGROUND

In 2025, the City of Upland engaged Raftelis Financial Consultants, Inc. to prepare a comprehensive Water, Recycled Water, and Wastewater Rate Study. The Study was conducted to evaluate the long-term financial needs of the City's utility enterprise funds, perform cost-of-service analyses, and develop equitable and defensible five-year rate schedules in compliance with the requirements of Proposition 218.

The City provides potable water, recycled water, and wastewater collection services to residents and businesses within the City of Upland and portions of its sphere of influence. These enterprise funds are supported primarily through user rates and charges, which must be sufficient to fund ongoing operations and maintenance, address capital replacement and rehabilitation of aging infrastructure, meet debt service obligations, and maintain prudent reserve levels to support emergency preparedness, cash flow stability, and regulatory compliance.

Raftelis' analysis incorporated the City's recently completed Water, Recycled Water and Wastewater Master Plans. In addition, Raftelis' rate studies evaluated financial data, operational costs, capital improvement program needs, debt obligations, and customer usage information. The studies evaluated the adequacy of existing rates and assessed the long-term financial condition of each utility, under both current rate structures and proposed revenue scenarios, with the objective of ensuring long-term fiscal sustainability while maintaining service levels and compliance with regulatory requirements.

- This action does not approve new rates. Rather, it initiates the Proposition 218 public noticing process by setting a public hearing date tentatively for June 8, 2026, provided staff may adjust the date if needed to ensure compliance with Proposition 218 and other applicable law, and directing staff to prepare and mail the required notices. Following the public hearing, and provided no majority protest exists, the City Council may consider the adoption of updated water, recycled water, and wastewater rates and the approval of a Resolution adopting Water, Recycled Water, and Wastewater (Sewer) Service Fee Adjustments, including Wholesale Pass-Through Charges.

Pursuant to Proposition 218 (California Constitution, Article XIII D, Section 6), the City is required to conduct a public hearing and consider all written protests against the proposed changes and increases to the water, sewer, and recycled water rates. If at the conclusion of the public hearing the written protests against the proposed changes do

not constitute a majority of the City's affected parcels, the City Council may consider and adopt the proposed Resolution amending the water, sewer, and recycled water service charges and fees.

Pursuant to Proposition 218 (California Constitution, Article XIII D, Section 6), the City is required to comply with the following procedures prior to increasing water, sewer, and recycled water service fees and charges:

**Proposition 218 Procedure:**

1. Parcels upon which the increased fee or charge is proposed to be imposed have been identified and Proposition 218 Notice "Notice" will be mailed to (a) the record owner (as defined in California Government Code Section 53750(j) (the "Owner") of each identified parcel (as defined in California Government Code Section 53750(g), and (b) any customer of record who, at the time the notice is mailed, has a billing account with the City and is directly liable to pay the fee ("Customer") for an identified parcel.
2. The Notice will contain (a) the amount of the fee or charge; (b) the basis on which it was calculated; (c) reason for the increase, and (d) the date, time, and location the City Council will conduct a public hearing on the proposed increase.
3. A public hearing, upon approval by City Council, will be scheduled (at least 45 days after the Notice is mailed) to consider all written protests against the proposed increased fees. If, at the conclusion of the hearing, written protests against the proposed increased fee are presented by a majority of Owners/Customers of parcels to be charged, the City may not increase the fee.

**AB 2257**

AB 2257 was codified into Government Code Section 53759.1 and 53759.2 and provides an administrative remedy for ratepayers that wish to address a legal issue with the proposed rate increase. AB 2257 provides the ratepayers with a procedure for alleging noncompliance with the provisions of Article XIII D of the California Constitution for any new, increased, or extended water or sewer fee or assessment via a timely submitted written objection to that fee or assessment that specifies the grounds for alleging noncompliance.

By implementing this procedure, the City is able to address any potential legal issues prior to adoption of the rates. Failure of a ratepayer to submit a timely valid legal objection prohibits them from any future judicial action or proceeding to review, invalidate, challenge, set aside, rescind, void, or annul the fee or assessment for failure to comply with Proposition 218. This procedure also provides a framework for the administrative record that will be used in such a proceeding.

The City shall comply with the requirements of AB 2257 to establish an administrative remedy for ratepayers. The Proposition 218 Notice will include all necessary information regarding this procedure including instructions on how to submit a formal written and legal objection. Ratepayers will have an opportunity to submit an objection regarding a proposed property-related water fee or charge, or any special assessment, to the City (local public agency governing body's) attention prior to the deadline established by the City as part of the rate or assessment consideration process (4:00 PM on May 18, 2026). A copy of the prepared Proposition 218 Notice is included as an attachment to this staff report.

The current and proposed rates will be set forth in a resolution or resolutions relating to services and fees for water, recycled water, and sewer.

**ISSUES AND ANALYSIS**

**Proposed Rates**

Utility services for water, sewer, and recycled water are operated as separate Enterprise Funds and are not commingled with the City's General Fund. Utility services are funded by fees and charges (rates), and the budgets are set bi-annually with mid-year and annual check-ins. Rates and services are reviewed periodically to ensure that the established service rates are:

- Adequate to recover costs reasonably borne in providing the services.
- Equitable to all customer classes.
- In compliance with all State and Federal regulations.
- Easily explained to customers.

The basis and reasons for the proposed changes and rate increases are to enable the City to recover operating expenses, and to maintain the operational and financial stability of the utilities, while maintaining our commitment to provide the highest quality services at the lowest possible rates for our customers. The proposed rates are based upon multi-year financial plans. The multi-year financial plans assess the City’s revenue requirements for both operations and capital facilities for water, recycled water, and sewer, including information from the most recent master plans. The proposed water and recycled water rate adjustments would be implemented on July 1, 2026, and on each January 1 thereafter, through and including January 1, 2030. The City’s proposed sewer rate adjustments would be implemented on July 1, 2026, and each January 1 thereafter, through and including January 1, 2030. Additionally, the City is proposing to pass-through wholesale rate increases as they are adopted by the Inland Empire Utilities Agency (IEUA) for local implementation (typically July 1<sup>st</sup> of each fiscal year) through the end of 2030.

The Rate Studies prepared by Raftelis recommend five-year schedules of rate adjustments for water, recycled water, and wastewater services designed to ensure revenues align with the cost of providing service, maintain required reserve levels, and fund needed capital investments. The proposed adjustments are phased to moderate customer impacts while addressing long-term fiscal sustainability.

Importantly, the proposed rates do not exceed the cost of service attributable to each parcel and comply with all substantive and procedural requirements of Proposition 218.

The tables below summarize the recommended percentage-based revenue adjustments relative to current City of Upland rates. These adjustments are applied uniformly within each utility enterprise and translated into specific rate schedules through the cost-of-service analysis prepared by Raftelis.

**Water and Recycled Water**

Raftelis evaluated the Water Fund under a “status quo” scenario in which no rate increases are implemented. Under that scenario, the Water Fund is projected to fall below minimum reserve targets beginning in Fiscal Year 2028 and would be unable to meet debt service coverage requirements by Fiscal Year 2029. Key cost drivers include rising purchased water costs, inflationary pressures on operations and maintenance, and the need to fund regular capital replacement and refurbishment projects as well as those associated with new Federal and State regulations.

To address these projected shortfalls, Raftelis recommends an industry-wide best practice five-year schedule of water and recycled water revenue adjustments beginning in Fiscal Year 2026. The proposed adjustments are summarized in the tables below.

**Summary of Proposed Five-Year Rate Adjustments**

The tables below summarize the recommended percentage-based revenue adjustments relative to current City of Upland rates. These adjustments are applied uniformly within each utility enterprise and translated into specific rate schedules through the cost-of-service analysis prepared by Raftelis.

During the comprehensive rate study review process, the City evaluated the proportional cost of service for each customer classification, including the application of peaking factors used to allocate system capacity and demand-related costs. The analysis determined that based upon current user characteristics, certain user categories need rate adjustments to reflect updated costs of service.

With respect to the government customer classification, the City has elected to maintain this category at a comparatively higher rate level. The City is the only customer in this class, and this policy is intended to offset cost increases for other customers.

**CITY WATER COMMODITY RATES (BI-MONTHLY)**

**Table 1: Proposed Schedule Rate Adjustments of Bi-Monthly Water Volumetric Rates**

| Single Family Residential Rates |          |              |                                |                                |                                |                                |                                |
|---------------------------------|----------|--------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Usage Tiers                     | Unit     | Current Rate | Proposed Rate Effective 7/1/26 | Proposed Rate Effective 1/1/27 | Proposed Rate Effective 1/1/28 | Proposed Rate Effective 1/1/29 | Proposed Rate Effective 1/1/30 |
| 0-20                            | per hcf* | \$2.33       | \$2.40                         | \$2.52                         | \$2.65                         | \$2.79                         | \$2.93                         |
| 21-50                           | per hcf* | \$3.08       | \$3.21                         | \$3.38                         | \$3.55                         | \$3.73                         | \$3.92                         |
| 51+                             | per hcf* | \$3.68       | \$3.73                         | \$3.92                         | \$4.12                         | \$4.33                         | \$4.55                         |

| Multi-Family Residential Rate |          |              |                                |                                |                                |                                |                                |
|-------------------------------|----------|--------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Customer Class                | Unit     | Current Rate | Proposed Rate Effective 7/1/26 | Proposed Rate Effective 1/1/27 | Proposed Rate Effective 1/1/28 | Proposed Rate Effective 1/1/29 | Proposed Rate Effective 1/1/30 |
| Multi-Family                  | per hcf* | \$2.87       | \$3.17                         | \$3.33                         | \$3.50                         | \$3.68                         | \$3.87                         |

| Rates for Other Classes  |          |              |                                |                                |                                |                                |                                |
|--------------------------|----------|--------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Customer Class           | Unit     | Current Rate | Proposed Rate Effective 7/1/26 | Proposed Rate Effective 1/1/27 | Proposed Rate Effective 1/1/28 | Proposed Rate Effective 1/1/29 | Proposed Rate Effective 1/1/30 |
| Landscape <sup>(1)</sup> | per hcf* | \$3.17       | \$3.34                         | \$3.51                         | \$3.69                         | \$3.88                         | \$4.08                         |
| Commercial               | per hcf* | \$2.76       | \$3.16                         | \$3.32                         | \$3.49                         | \$3.67                         | \$3.86                         |
| School                   | per hcf* | \$3.38       | \$3.29                         | \$3.46                         | \$3.64                         | \$3.83                         | \$4.03                         |
| Government               | per hcf* | \$3.47       | \$3.47                         | \$3.65                         | \$3.84                         | \$4.04                         | \$4.25                         |

| City Rates for Recycled Water |          |              |                                |                                |                                |                                |                                |
|-------------------------------|----------|--------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Customer Class                | Unit     | Current Rate | Proposed Rate Effective 7/1/26 | Proposed Rate Effective 1/1/27 | Proposed Rate Effective 1/1/28 | Proposed Rate Effective 1/1/29 | Proposed Rate Effective 1/1/30 |
| Recycled                      | per hcf* | \$2.54       | \$2.64                         | \$2.78                         | \$2.92                         | \$3.07                         | \$3.23                         |

(1) Fire Hydrant Meter Rate  
 \*hcf = hundred cubic feet = 1 billing unit = 748 gallons

**Table 2: Proposed 5-Year Schedule of Bi-Monthly Fixed Meter Rate**

| Proposed 5-Year Schedule of Bi-Monthly Fixed Meter Rate |            |                   |                     |                     |                     |                     |
|---|------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| SERVICE CHARGES (Bi-Monthly)                            | CURRENT    | Proposed 7/1/2026 | Proposed 1/1/2027** | Proposed 1/1/2028** | Proposed 1/1/2029** | Proposed 1/1/2030** |
| 5/8"  | \$65.26    | \$67.36           | \$70.73             | \$74.27             | \$77.99             | \$81.89             |
| 3/4"  | \$82.68    | \$84.92           | \$89.17             | \$93.63             | \$98.32             | \$103.24            |
| 1"  | \$117.52   | \$120.03          | \$126.04            | \$132.35            | \$138.97            | \$145.92            |
| 1 1/2"  | \$204.72   | \$207.82          | \$218.22            | \$229.14            | \$240.60            | \$252.63            |
| 2"  | \$309.35   | \$313.16          | \$328.82            | \$345.27            | \$362.54            | \$380.67            |
| 3"  | \$588.33   | \$646.74          | \$679.08            | \$713.04            | \$748.70            | \$786.14            |
| 4"  | \$902.15   | \$1,138.32        | \$1,195.24          | \$1,255.01          | \$1,317.77          | \$1,383.66          |
| 6"  | \$1,773.93 | \$2,314.63        | \$2,430.37          | \$2,551.89          | \$2,679.49          | \$2,813.47          |
| 8"  | \$2,820.12 | \$4,948.14        | \$5,195.55          | \$5,455.33          | \$5,728.10          | \$6,014.51          |

**Drought Rates**

In times of drought or emergency water shortage, the City Council may declare mandatory water use restrictions. During times of mandatory water use restrictions, an additional charge will be added to the volumetric rates based upon the amount of restriction required. For example, when a 10% water use reduction is required, volumetric rates will increase by 3%. See all proposed drought rates as detailed in Table 3 below:

**Table 3: Proposed Drought Rates Per Drought Stage**

| Proposed Drought Rates Per Drought Stage |                               |                               |                               |                               |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Drought Surcharge                        | Up to 10% Water Use Reduction | Up to 20% Water Use Reduction | Up to 30% Water Use Reduction | Up to 40% Water Use Reduction | Up to 50% Water Use Reduction |
| Volumetric Rate Surcharge Increase       | 3%                            | 10%                           | 22%                           | 36%                           | 54%                           |

In the event of a declared mandatory water use restriction that triggers imposition of drought rates, the actual drought rate shall be imposed in addition to the volumetric rate, and shall be equal to the lesser of the volumetric rate imposed at that time multiplied by the percentages in the table above, or the rates set forth in the table below.

**Table 4: Proposed Drought Rates Surcharge**

| Customer Class                                      | Proposed<br>7/1/2026 | Proposed<br>1/1/2027 | Proposed<br>1/1/2028 | Proposed<br>1/1/2029 | Proposed<br>1/1/2030 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Maximum Drought Surcharge (40-50% Reduction) \$/hcf |                      |                      |                      |                      |                      |
| <b>Single Family</b>                                |                      |                      |                      |                      |                      |
| Tier 1  | \$1.31               | \$1.38               | \$1.44               | \$1.52               | \$1.59               |
| Tier 2  | \$1.75               | \$1.84               | \$1.93               | \$2.03               | \$2.13               |
| Tier 3  | \$2.04               | \$2.14               | \$2.25               | \$2.36               | \$2.48               |
| <b>Multi Family</b>                                 | \$1.73               | \$1.82               | \$1.91               | \$2.00               | \$2.10               |
| <b>Landscape</b>                                    | \$1.82               | \$1.91               | \$2.01               | \$2.11               | \$2.21               |
| <b>Commercial</b>                                   | \$1.73               | \$1.82               | \$1.91               | \$2.00               | \$2.10               |
| <b>Schools</b>                                      | \$1.80               | \$1.89               | \$1.98               | \$2.08               | \$2.19               |
| <b>Government</b>                                   | \$1.89               | \$1.98               | \$2.08               | \$2.19               | \$2.30               |
| <b>Revenue Adjustments</b>                          |                      | 5%                   | 5%                   | 5%                   | 5%                   |

\*These maximum amounts do not include the IEUA pass-through, which may be implemented by the City should IEUA increase its imported water rates in an amount greater than what was proposed within the Rate Study; however, only within the pass-through authorization approved by the City Council.

These adjustments are designed to:

- Fully fund annual operations and maintenance costs;
- Fund the City’s water and recycled water capital improvement program using a combination of rate revenue and reserves;
- Maintain minimum and target reserve levels throughout the rate-setting period;
- Avoid larger, more abrupt rate increases in the future;
- Sustain long-term wastewater system operations; and
- Preserve long-term fiscal sustainability of the Water Fund.

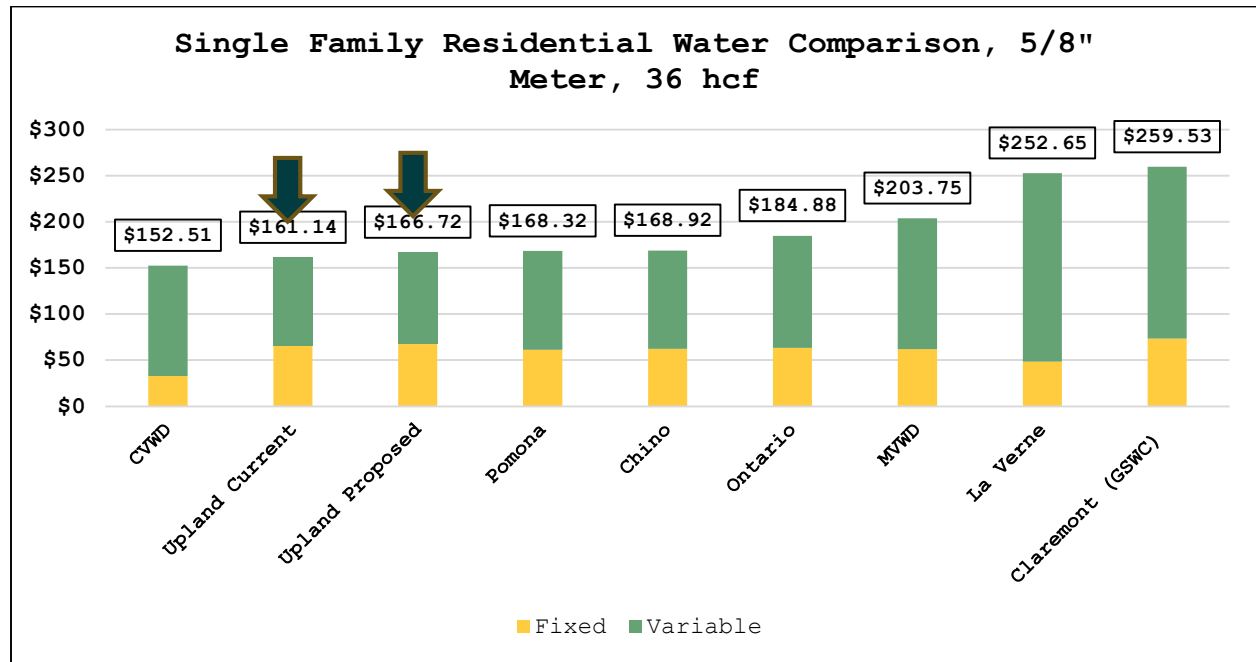
The proposed rate design maintains the City’s existing structure, consisting of a fixed bi- monthly service charge and volumetric usage charges. Single-family residential customers continue to be charged tiered volumetric rates to promote efficient water use, while non- residential and recycled water customers are charged uniform volumetric rates based upon cost of service.

**Comparative Analysis of Water Rates**

The phased in nature of the proposed adjustments are intended to balance affordability with the City’s obligation to maintain safe, reliable, and financially sustainable utility services.

At the request of management staff and as a part of the rate study, Raftelis evaluated customer bill impacts and compared the City’s proposed rates to neighboring jurisdictions. After factoring in the proposed adjustments, Upland’s water rates remain in most cases, lower than those of surrounding agencies when evaluated on an equivalent usage basis. As seen in Table 5 below, the City of Upland has the second lowest water rates compared to our neighboring communities within the Inland Empire demonstrating significant value to ratepayers.

**Table 5: Single Family Residential Water Comparison**



**Wastewater (Sewer)**

Raftelis also conducted a status quo analysis for the Wastewater Fund. Without rate adjustments, the Wastewater Fund is projected to fall below minimum reserve targets in Fiscal Year 2033 and deplete reserves by Fiscal Year 2034. This condition would limit the City’s ability to maintain the collection system and respond to emergencies, regulatory requirements and plan for and fund future system-wide capital improvements.

To stabilize the Wastewater Fund, Raftelis recommends an industry-wide best practice of incorporating a phased five-year schedule of revenue adjustments to the City’s local Sewer Service Charge, which funds the City’s wastewater collection system. The recommended City wastewater revenue adjustments are summarized in the table below:

**Table 6: City and IEUA Wastewater Rate Schedules**

|  | Current | FY 2026      | FY 2027      | FY 2028      | FY 2029      | FY 2030      |
|--|---------|--------------|--------------|--------------|--------------|--------------|
| <b>Effective Date</b>                    |         | July 1, 2026 | Jan. 1, 2027 | Jan. 1, 2028 | Jan. 1, 2029 | Jan. 1, 2030 |
| <b>City Local Sewer Services Charges</b> | \$11.29 | \$11.98      | \$12.46      | \$12.96      | \$13.48      | \$14.02      |

- **July 1, 2026:** 4% increase to City of Upland sewer collection rates
- **January 1, 2027:** 4% increase in total wastewater revenues
- **January 1, 2028:** 4% increase in total wastewater revenues
- **January 1, 2029:** 4% increase in total wastewater revenues
- **January 1, 2030:** 4% increase in total wastewater revenues

These percentage adjustments represent total revenue increases and are implemented through updates to fixed service charges and volumetric rates in accordance with Proposition 218 and cost-of-service principles. These City rate adjustments would generate sufficient revenue to:

- Fund ongoing wastewater collection system operations and maintenance;
- Support the City’s wastewater capital improvement program;
- Maintain reserve levels consistent with City financial policies;
- Avoid larger, more abrupt rate increases in the future;
- Sustain long-term wastewater system operations; and
- Preserve long-term fiscal sustainability of the Wastewater Fund.

In addition to the City’s local water and sewer service charges, water and wastewater customers within the City are also billed for potable water and regional wastewater treatment services provided by IEUA. The City provides potable water distribution and wastewater collection services, while IEUA is responsible for regional wastewater treatment and disposal.

Separate from the City’s proposed wastewater rate adjustments, IEUA has adopted increases to its wastewater treatment charge per Equivalent Dwelling Unit (EDU) over a two-year period. The increase consists of a 9% adjustment effective July 1, 2025, followed by an additional 9% adjustment effective July 1, 2026. These IEUA rate increases are passed through to City of Upland wastewater customers as a separate line item and are not included in the City’s proposed local sewer collection rate adjustments.

**Table 7: IEUA Pass-Through Wastewater Rate Schedule**

|   | FY 2026  | FY 2027      | FY 2028      | FY 2029      | FY 2030      | FY 2030      |
|---|----------|--------------|--------------|--------------|--------------|--------------|
| Effective Date  | Current  | July 1, 2026 | July 1, 2027 | July 1, 2028 | July 1, 2029 | July 1, 2030 |
| <b>IEUA Sewer Treatment Component (Pass-Through Rate)</b> | \$27.02* | \$29.45      | TBD          | TBD          | TBD          | TBD          |

\*The City currently charges only \$25.78 for IEUA although IEUA’s current rate is \$27.02 per EDU

The aforementioned IEUA charges are passed through by the City of Upland to affected customers in accordance with the City’s regional sewer service agreement. The City does not retain any portion of the IEUA treatment charge and acts solely as a billing and collection agent on IEUA’s behalf. The pass-through rate reflects the actual cost charged by IEUA for regional treatment services.

IEUA also imposes an extra-territorial monthly sewer service charge on sewer customers whose properties are located outside IEUA’s service area boundary, but who receive wastewater treatment services through IEUA facilities. These charges are intended to recover IEUA’s costs to provide regional wastewater treatment services to non-member or extra-territorial customers. Effective July 1, 2025, IEUA increased the extra-territorial monthly sewer service charge to \$23.53 per month per EDU, which is applied in addition to the FY 2025/26 adopted IEUA monthly EDU treatment rate of \$27.02. This only applies to approximately six (6) customers. The City currently charges only \$22.10 for IEUA although IEUA’s current rate is \$23.53 per EDU.

**IEUA Water and Wastewater Pass-Through Increases**

The City pays certain fees to IEUA for wholesale water and wastewater treatment costs. These include fees for purchased water, meter equivalency unit charges for water connections, recycled water fees, and wastewater treatment fees. IEUA’s adopted and projected rates are factored into the respective fees and charges described above.

The City cannot control whether IEUA increases its rates above those that are projected and factored into the City’s water, recycled water, and wastewater service charges. As such, the City proposes to pass-through directly to customers any IEUA adopted rate increases in excess of the IEUA rates projected and factored into the City’s fees. If adopted, the City’s authority to pass-through IEUA rate increases will expire after 5 years, and in no event will it cause the impacted rate to increase by more than 15% in any calendar year. Additionally, the City will provide 30 days’ written notice to all impacted customers of any IEUA pass-through fee increases.

IEUA pass-through fee increases typically occur on July 1 of each year. Currently, IEUA has not provided rates for fiscal years 2028 through 2030. The specific details of the IEUA pass-throughs will be described in the Proposition 218 notice mailed to customers.

**ENVIRONMENTAL DETERMINATION**

The proposed action is exempt from the California Environmental Quality Act (CEQA) pursuant to Public Resources Code Section 21080(b)(8) and CEQA Guidelines Section 15273 (a). The action involves the establishment of rates for the purpose of meeting operating expenses, funding capital improvements necessary to maintain service, and meeting reserve requirements within existing service areas.

**FISCAL IMPACTS**

There is no immediate fiscal impact associated with setting the public hearing and mailing Proposition 218 notices. Postage and administrative costs will be absorbed within existing operating budgets.

If subsequently approved by the City Council following the public hearing, the proposed rate adjustments would generate revenues sufficient to:

- Fund water, recycled water, and wastewater operations and maintenance;
- Support the City's necessary utility capital improvement program;
- Maintain recommended reserve levels;
- Ensure long-term fiscal sustainability of the utility enterprise funds; and
- Avoid larger, more abrupt rate increases in the future.

To maintain long-term fiscal sustainability, it is essential that the City's utility enterprise funds generate sufficient revenue to support ongoing operations and maintenance, fund planned capital improvement and infrastructure replacement projects and maintain prudent reserve levels to address emergencies and economic uncertainty. In prior years, the City Council elected to defer certain rate adjustments and IEUA pass-through increases in an effort to keep customer rates lower or flat. While intended to provide short-term relief to ratepayers, such deferrals can have significant cumulative financial impacts on the enterprise funds and ultimately rate payers in the long-term. In such scenarios, single-digit percentage increases may turn into larger double-digit increases. Additionally, not approving or deferring rates may constrain the City's ability to adequately fund infrastructure needs and maintain appropriate reserve balances over time.

#### **Historical Rate Adjustment Deferrals – Water and Recycled Water**

Consideration of the proposed rate adjustments is of particular importance given the City's history of prior rate deferrals and the cumulative financial impacts to the enterprise funds, and ultimately to ratepayers. On December 9, 2019, implementation of the January 1, 2020, water and recycled water rate adjustment was deferred pending an additional rate study check-in to follow the rate study that had been completed the prior year. On March 9, 2020, the City Council further deferred the adjustment by electing to maintain 2018 water and recycled water rates, and on October 26, 2020, the City Council reaffirmed that deferral. Although new rates were ultimately implemented on August 9, 2021, the approved rates corresponded to those originally scheduled for January 2020 – effectively delaying revenue realization by more than a year and a half. Similarly, on February 27, 2023, the City Council implemented rates that had been scheduled to take effect January 1, 2022. These repeated deferrals resulted in substantial foregone revenue that was not received when originally planned, directly reducing enterprise fund cash flow and reserve balances. The delayed receipt of this revenue also diminished the compounding financial benefit that would have accrued over time, limiting the City's ability to build prudent reserves, fund capital reinvestment, and maintain long-term fiscal sustainability. As a result, enterprise fund shortfalls were ultimately offset, in part, by support from reserves, underscoring the importance of timely, consistent and sustainable rate implementation to protect both utility operations and broader City and ratepayer financial health.

#### **Historical Rate Adjustment Deferrals - Wastewater**

Similar financial impacts have occurred as a result of prior deferrals of IEUA pass-through wastewater treatment charge adjustments. In certain years, although IEUA adopted increases to its regional treatment rates, the City elected to keep customer sewer bills flat and did not fully implement the corresponding pass-through adjustments. While the City remained obligated to pay IEUA the full adopted treatment rates, the City absorbed those increases by reducing or holding down its local sewer service collection charges. This practice effectively shifted regional treatment cost increases onto the City's sewer enterprise fund, reducing the following: net revenues available for local system maintenance, capital replacement and rehabilitation, and reserve funding. Over time, absorbing outside agency cost increases in this manner contributed to structural pressure within the sewer enterprise fund, weakened reserve levels, and limited the City's financial flexibility to address infrastructure needs. Timely and consistent implementation of adopted pass-through charges is therefore critical to ensuring that the sewer enterprise remains financially self-supporting and that regional treatment costs are equitably allocated to ratepayers as intended.

#### **ALTERNATIVES**

Provide alternative direction to staff.

**CEQA:** Not a Project