

Proposition 218 Notice: Utility Rate Study and Cost of Service Review

Public Works

City Council Meeting

March 23, 2026

Damien R. Arrula, Assistant City Manager

Richard Gonzales, Deputy Director of Public
Works – Utilities



What Council Is Being Asked To Do Tonight

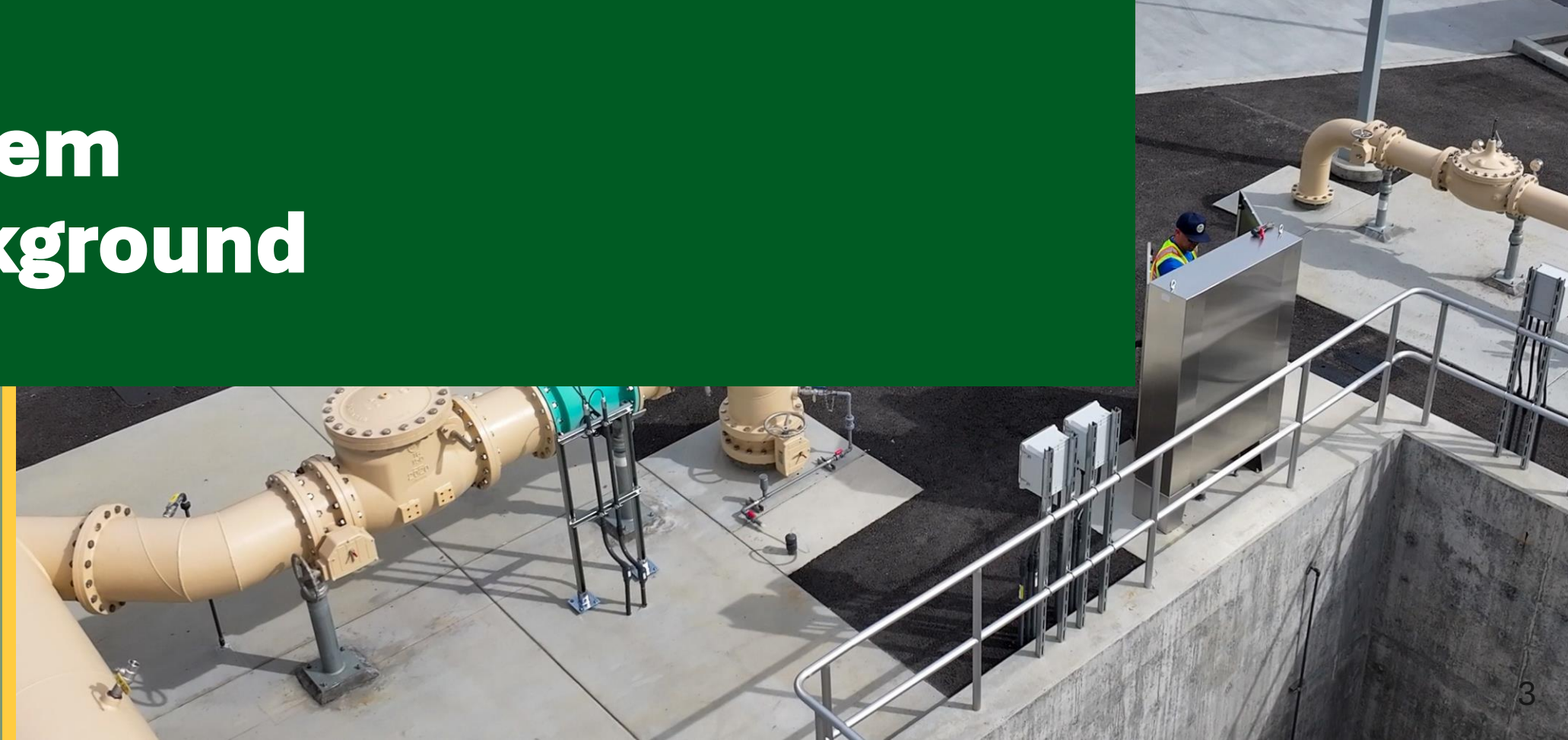


- Set Public Hearing Date
 - June 8, 2026
- Authorize Mailing of Proposition 218 Notices
- Begin Public Input & Protest Process
- No Rates Are Being Adopted Tonight





System Background



Background – Water Service Area

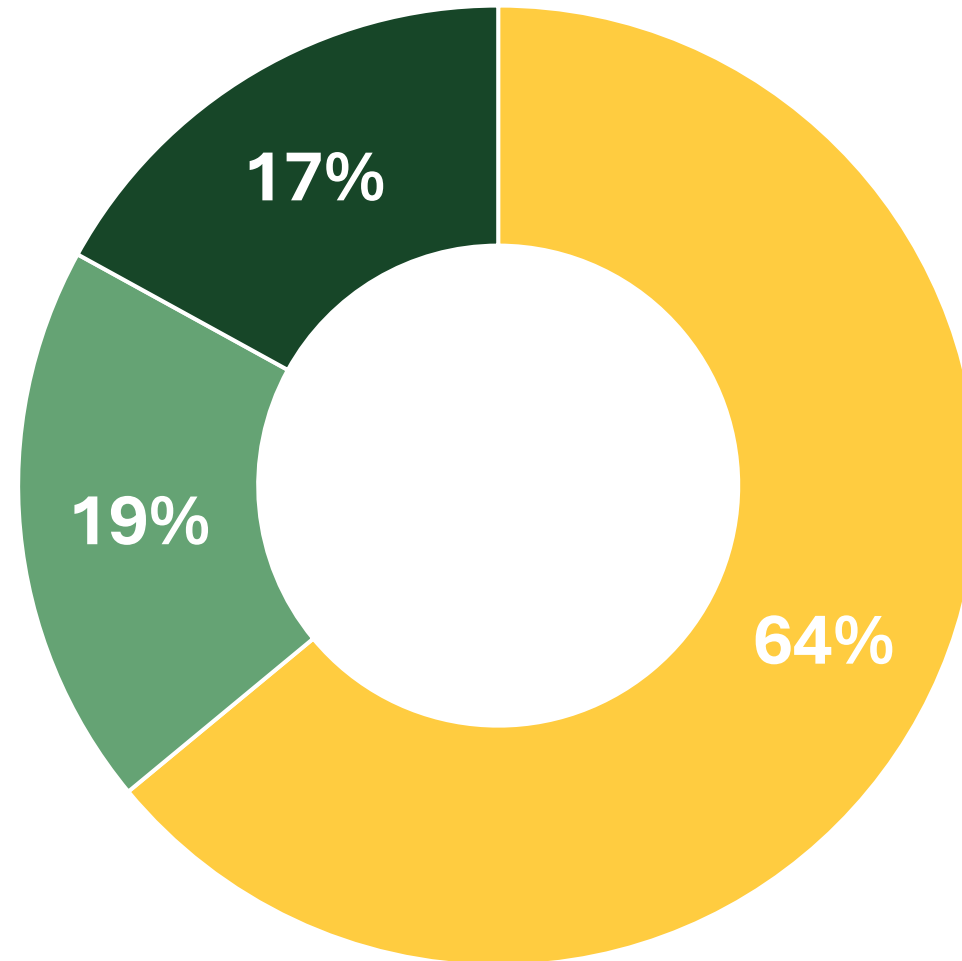


- Access to local and imported water supply resources
 - Groundwater rights in Chino Basin, Cucamonga Basin, and Six Basins
- Majority shareholder in West End Consolidated Water Company and San Antonio Water Company
 - Canyon Water – surface water treated at the City’s San Antonio Water Treatment Plant

Background – Water Portfolio

UPLAND'S 2024 WATER SOURCES

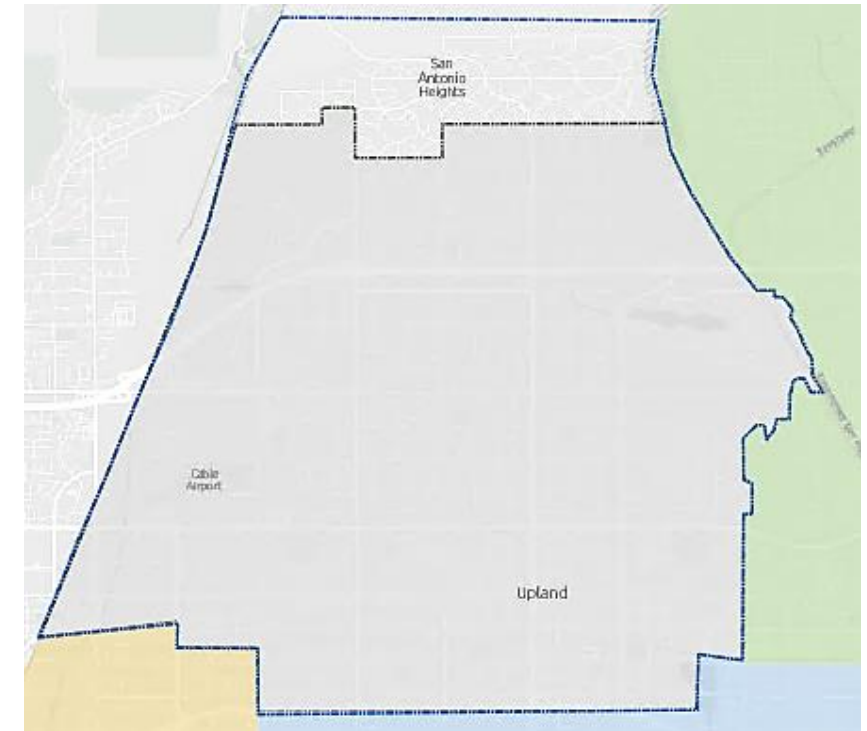
■ Ground Water ■ Surface Water ■ Imported Water



Background – Wastewater Collection System



- City-owned wastewater collection system
- Wastewater sent to Inland Empire Utilities Agency (IEUA)
- Upland is one of several contract cities
 - Discharge compliance
 - Must meet strict discharge limits
- Ensures public and environmental safety
- Treated wastewater available to purchase as recycled water

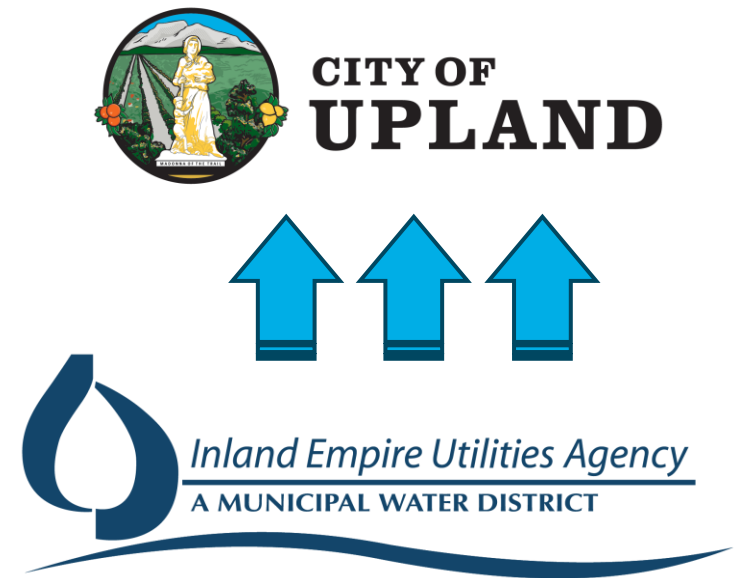


- System Service Area
- City Limits
- City of Upland
- City of Montclair
- City of Ontario
- City of Rancho Cucamonga

Background – Recycled Water System



- City's recycled water supplied by IEUA
- Tertiary treated (per Title 22 regulatory standards)
 - Safe for non-potable use: parks, medians, golf courses
 - Groundwater recharge boosts groundwater supply and drought resilience
- Critical benefits
 - Reduces imported water demand
 - Improves local water supply reliability and long-term sustainability



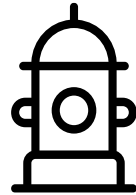
By the Numbers:



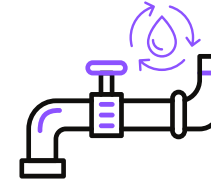
23,450 Water Meters



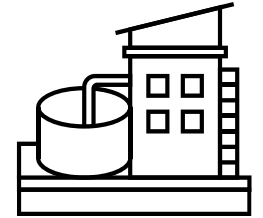
13 Water Reservoirs



200 Fire Hydrants



3.3 Miles of Recycled Water Lines



6 Million Gallons Per Day Treatment Plant



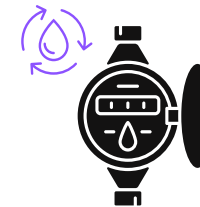
20,500 Water Samples Taken Annually



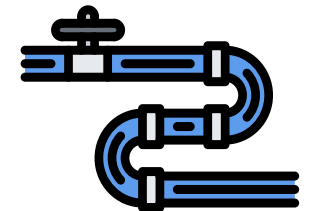
11 Active Wells



210 Miles of Sewer Line



46 Recycled Water Meters

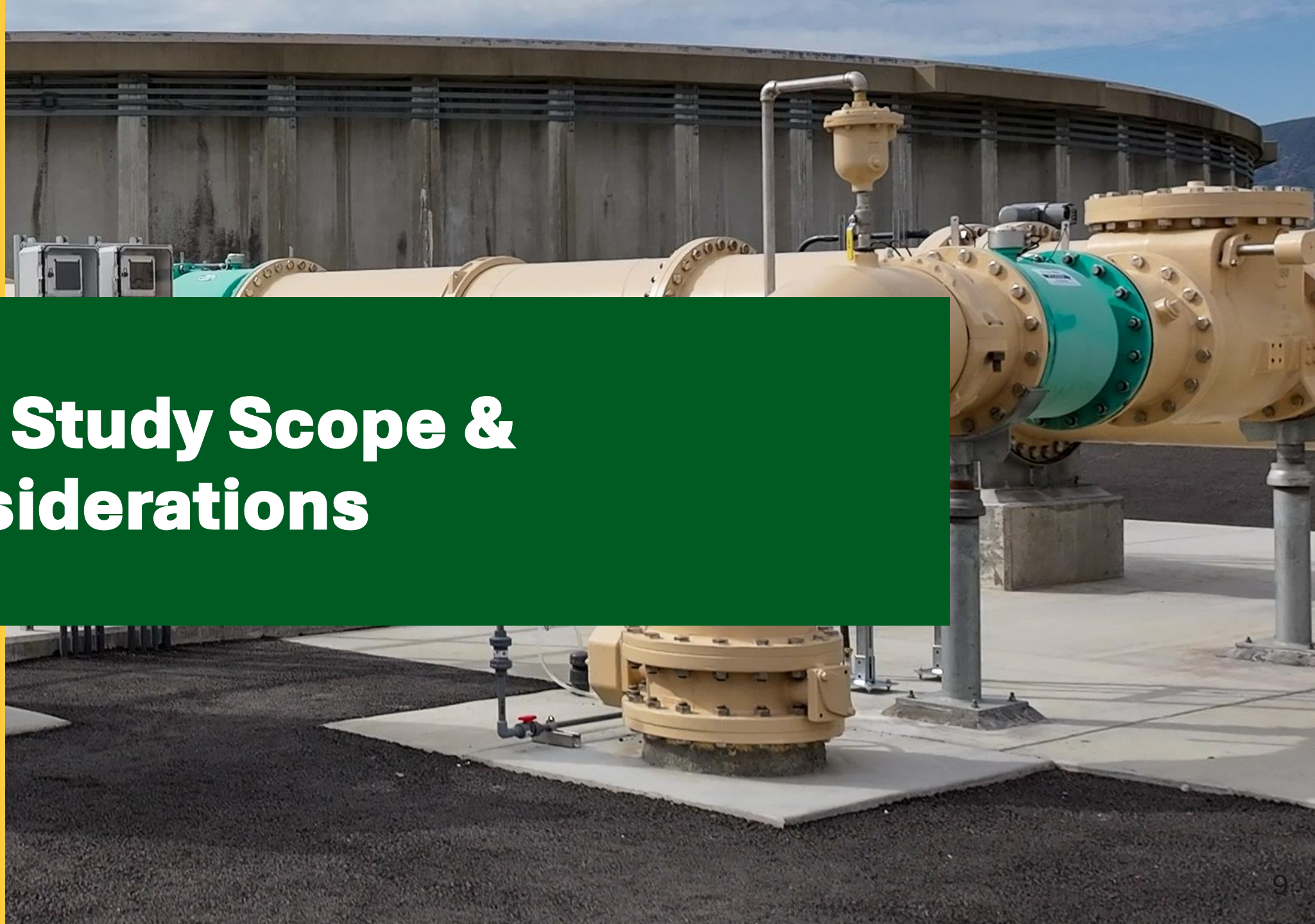


439 Miles of Water Lines





Rate Study Scope & Considerations



Background – Consultant



190+
Consultants



32+ Years
Serving the Public Sector



1,700+
Public Agencies Assisted



Sudhir Pardiwala, PE

45+ years of experience

Supported rate and financial studies for 100+ agencies across California, Oregon, Washington, Nevada, and Arizona.



Nick Kennedy

3+ years of experience

Supported rate and financial studies for Inglewood, Seal Beach, Manhattan Beach, Fountain Valley, Ventura, and Oxnard.

Depth and Scope of This Study



- Comprehensive water, recycled water, and wastewater analysis
- Included:
 - Financial plans
 - Cost-of-service analyses
 - Five-year rate schedules
 - Customer impact analysis
 - Reserve policy evaluation
- Conducted using:
 - AWWA & WEF industry standards
 - Proposition 218 legal requirements

Master Plan Integration into the Rate Study

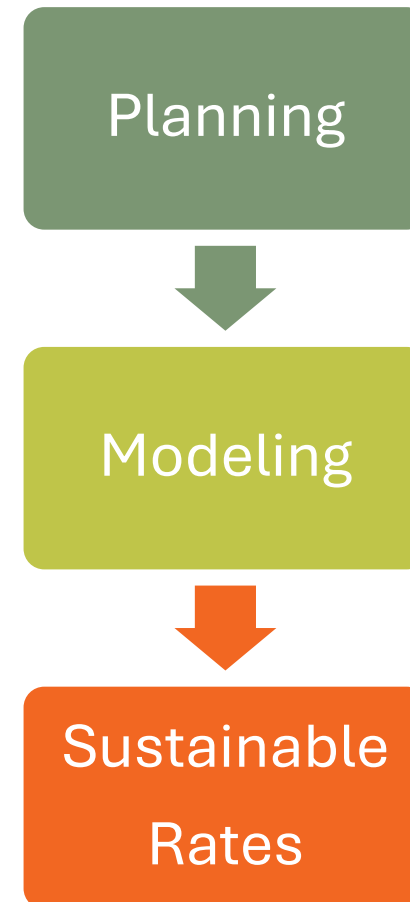


First rate study in over a decade to directly integrate updated utility master planning into financial modeling and rate development.

This allows the rate to reflect:

- Actual system condition and remaining asset life
- Current and upcoming regulatory requirements
- Community growth and future service demand
- Long-term infrastructure replacement needs

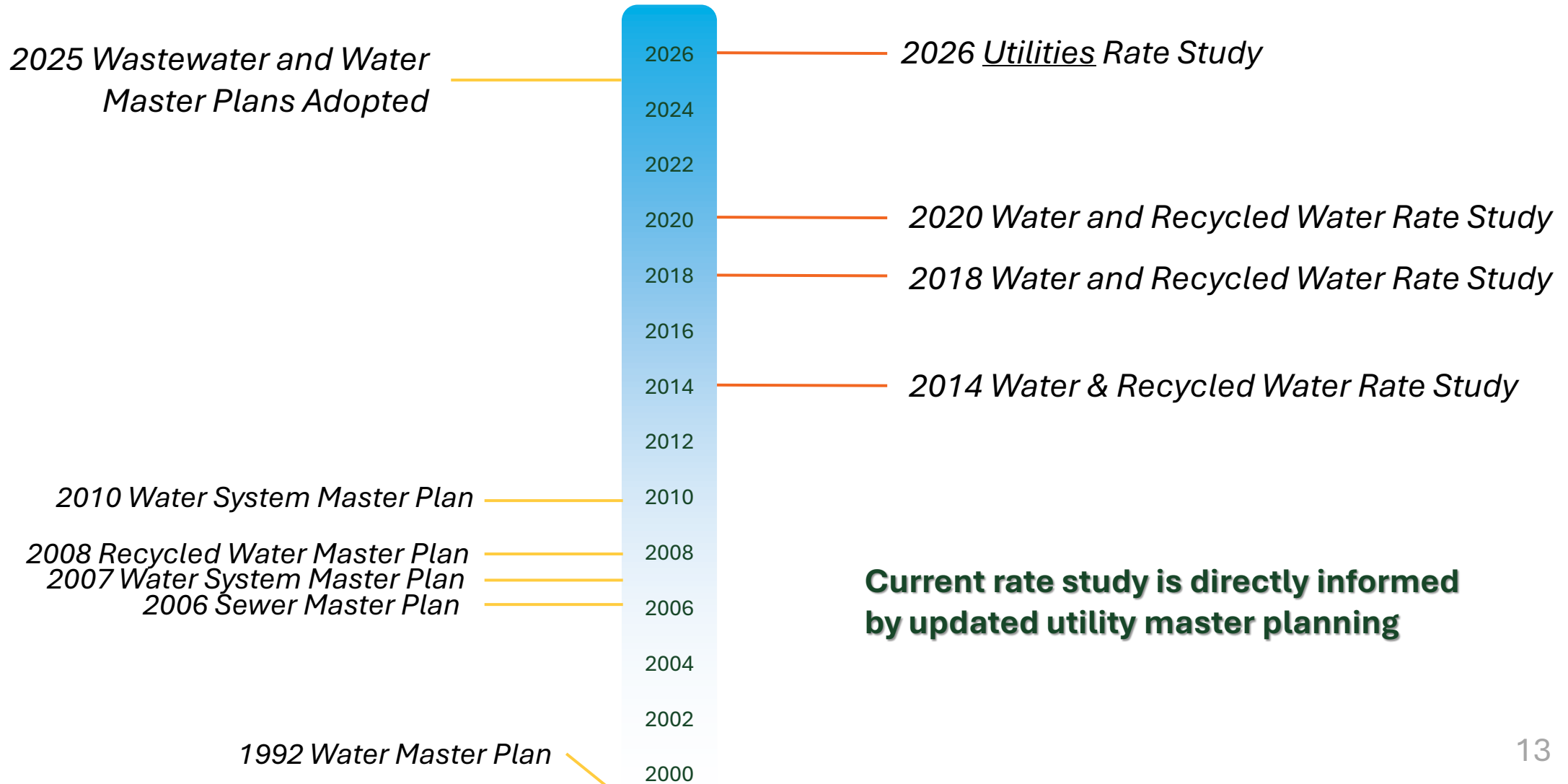
The rate study determines how we responsibly fund those needs over time.



Long-Range Planning & Rate Study Timeline

Master Plan History

Rate Study History



Current rate study is directly informed by updated utility master planning



Why a Rate Study Is Necessary



System & Financial Drivers

- Completion of comprehensive water, recycled water, and wastewater master plans
- Rising costs for:
 - Purchased water
 - Operations & maintenance
 - Federal & State mandates
 - Comprehensive capital replacement and rehabilitation
- Aging infrastructure
- Sufficient funding for long-range planning
- Need for long-term fiscal sustainability



How Utility Services Are Funded



Water and Wastewater utilities operate as Enterprise Funds

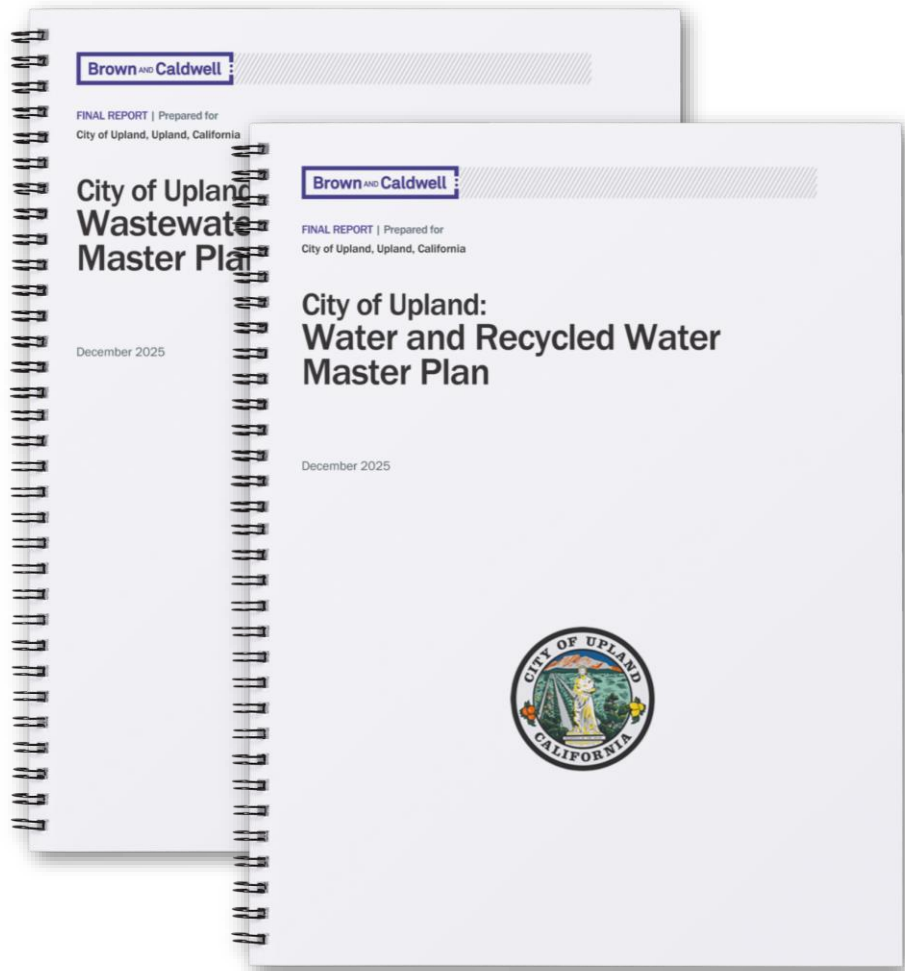
- Unlike the General Fund, Enterprise Funds are supported primarily through user rates and charges
- Rate revenues fund:
 - Operations and maintenance
 - Capital replacement and rehabilitation
 - Debt service obligations
 - Required reserve levels
 - Forever Chemicals & Chemicals of Emerging Concern (PFAS, PFOA, CECs, etc.)

This structure ensures the City's utility operation remains sustainable.



Masterplan Integration

Masterplan Foundations



Planning Documents Used

- Water Master Plan
- Recycled Water Master Plan
- Sewer (Wastewater Collection) Master Plan
- Capital Improvement Program (CIP)

These plans identified:

- System deficiencies
- Required infrastructure investments
- Regulatory and reliability needs

Water & Recycled Water Master Plan – Key Findings



Water & Recycled Water System Needs

- Aging pipelines, reservoirs, and facilities
- Continued reliance on:
 - Local groundwater
 - Imported water supplies
- Recycled water system expansion and maintenance

Need for:

- Capital reinvestment
- Emergency preparedness
- Long-term supply reliability



Wastewater Master Plan – Key Findings



Wastewater Collection System Needs

- Approximately 200+ miles of sewer pipelines
- Ongoing maintenance and rehabilitation required
- Increased costs for:
 - System repairs
 - Regulatory compliance
 - Conveyance agreements
- Importance of maintaining reserve levels for emergencies





Rate Financial Impact & Considerations

Financial Health: Status Quo vs Action



What Happens If Rates Are Not Adjusted

- Water Fund:
 - Reserves fall below minimum targets by FY 2029
 - Difficulty meeting debt service requirements
- Wastewater Fund:
 - Reserves depleted by FY 2034
- Increased risk of:
 - Deferred maintenance
 - Aging infrastructure – Reactive vs Proactive
 - Larger future rate increases
 - Service reliability issues

First-Year Adjustment Explained



- Cost-of-service analysis identified certain customer classes were not aligned with their proportional cost of service
- Prior rate structure resulted in cross-subsidization between customer groups
- First-year adjustments realign each class with its actual cost of service
- Years 2-5 reflect uniform annual adjustments

First-Year

Based on average usage by account type.

Customer Class	Meter Size	Usage (hcf)	Current Bi-Monthly Bill	Proposed Bi-Monthly Bill	Difference (\$)	Difference (%)
Single Family	5/8"	36	\$161.14	\$166.72	\$5.58	3.46%
Multi Family (3 Dwelling Units)	5/8"	40	\$182.66	\$196.76	\$14.10	7.72%
Landscape	2"	264	\$1,146.23	\$1,194.92	\$48.69	4.25%
Commercial	2"	108	\$607.43	\$654.44	\$47.01	7.74%
Schools	3"	603	\$2,626.47	\$2,630.61	\$4.14	0.16%
Government	2"	158	\$857.61	\$861.42	\$3.81	0.44%
Recycled Water	2"	966	\$2,762.99	\$2,864.63	\$101.64	3.68%



Years 2-5

Predictable, modest annual adjustments to maintain system stability and avoid future spikes.

- 5% annual adjustment – Effective January 1, 2027
- 5% annual adjustment – Effective January 1, 2028
- 5% annual adjustment – Effective January 1, 2029
- 5% annual adjustment – Effective January 1, 2030



Proposed Five-Year Water Rate Schedule, Volumetric (\$/hcf)

Commodity Charges	Current	Proposed FY 2027	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030
Effective Date		July 1, 2026	January 1, 2027	January 1, 2028	January 1, 2029	January 1, 2030
Revenue Adjustments		Variable/ Class*	5.0%	5.0%	5.0%	5.0%
Single Family						
Tier 1	\$2.33	\$2.40	\$2.52	\$2.65	\$2.79	\$2.93
Tier 2	\$3.08	\$3.21	\$3.38	\$3.55	\$3.73	\$3.92
Tier 3	\$3.68	\$3.73	\$3.92	\$4.12	\$4.33	\$4.55
Multi Family	\$2.87	\$3.17	\$3.33	\$3.50	\$3.68	\$3.87
Landscape	\$3.17	\$3.34	\$3.51	\$3.69	\$3.88	\$4.08
Commercial	\$2.76	\$3.16	\$3.32	\$3.49	\$3.67	\$3.86
Schools	\$3.38	\$3.29	\$3.46	\$3.64	\$3.83	\$4.03
Government	\$3.47	\$3.47	\$3.65	\$3.84	\$4.04	\$4.25
Recycled Water	\$2.54	\$2.64	\$2.78	\$2.92	\$3.07	\$3.23

*Rates variable for each usage class



Regional Rate Comparison

Water Rate

Single Family Residential Water Comparison, 5/8" Meter, 36 hcf



Rates shown as of July 1, 2025.





IEUA Pass-Through Charges



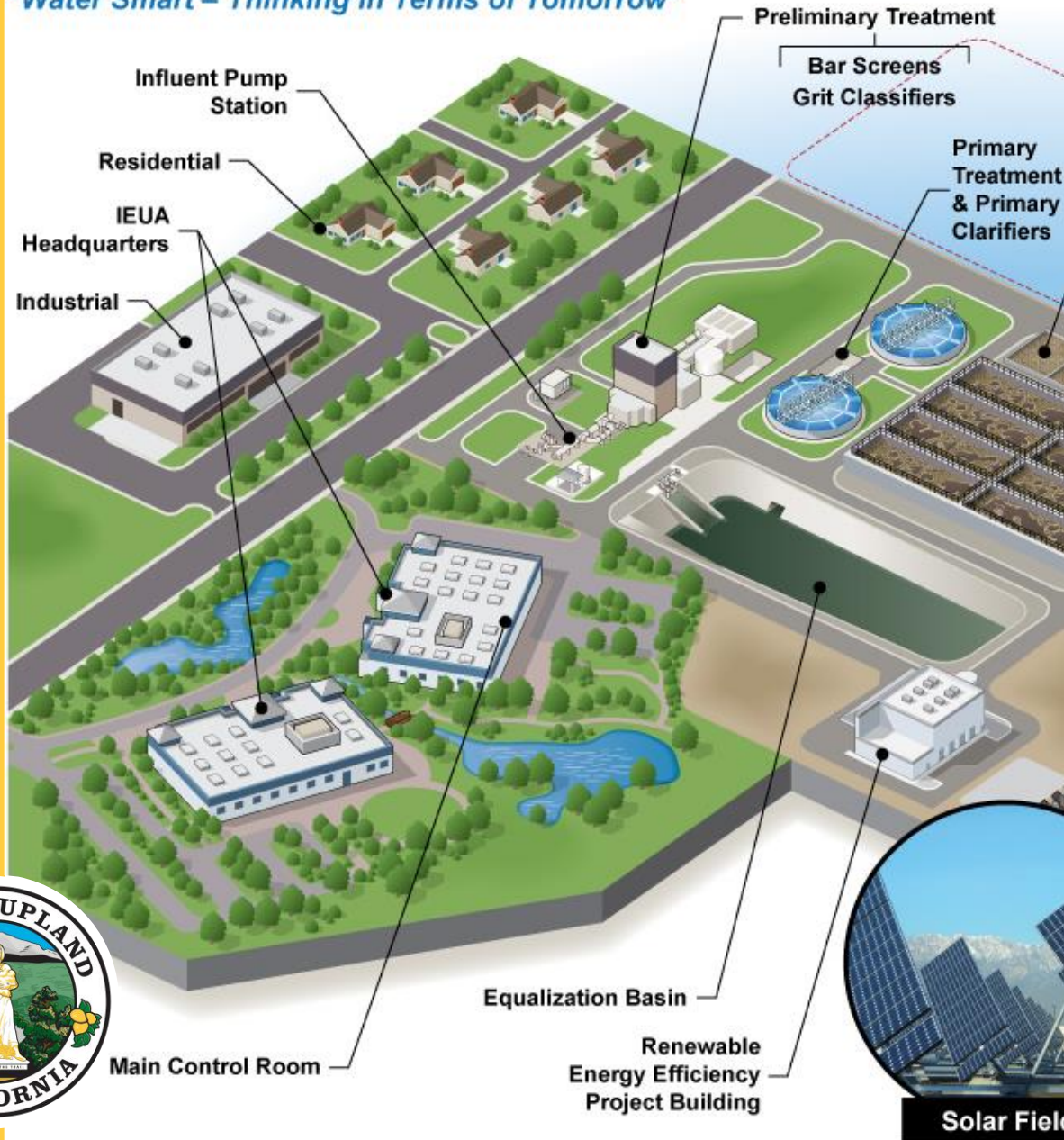
What Is a Pass-Through Charge?

A pass-through charge is a cost the City pays to an external wholesale or treatment agency, in this instance IEUA, and then bills to customers **without markup or profit**. These separate charges are considered pass-through charges, and the City does not control them.



Regional Water Recycling Plant No. 5

"Water Smart – Thinking in Terms of Tomorrow"



IEUA's Services

- Regional wastewater treatment
- IEUA establishes the regional wastewater treatment rate
- Develop and manage regional water resources, including recycled water and groundwater recharge

IEUA Pass-Through Background



- IEUA establishes regional wastewater treatment rates
- City of Upland acts as the billing and collection agent
- Pass-through charges reflect actual IEUA costs. IEUA recent charges to retail customers, such as Upland, have been on a biannual basis.
- City rate studies and most utilities follow a five-year cycle. IEUA's recent practice of biannual rate increases creates challenges for implementation of rate adoptions and sufficient time to notify rate payers.
- Timing differences can create pressure for larger, less predictable adjustments and create confusion for rate payers on rates the City does not control



IEUA Wastewater Treatment Rates



IEUA Pass-Through Charges

- IEUA adopted an 18% rate increase over the past two years
 - Effective July 1, 2026 – 9%
 - Effective July 1, 2027 – 9%
- Passed through as a separate line item

IEUA Pass-Through Wastewater Rate Schedule					
Effective Date	Current	July 1, 2026	July 1, 2027	July 1, 2028	July 1, 2029
IEUA Sewer Treatment Component (Pass-Through Rate)*	\$27.02	\$29.45	TBD	TBD	TBD

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

IEUA Pass-Through Authority



- Resolution No. 6676 authorized IEUA pass-through adjustments through June 30, 2026, allowing the City to reflect IEUA treatment cost increases in sewer rates, with any single increase not to exceed 7%.
- Fully in compliance with Proposition 218
- Pass-through authority allows the City to plan ahead and maintain rate stability for customers
- IEUA recently adopted 9% increases in each of the last two FYs
- Given IEUA's recent rate increases, coupled with biannual rates inconsistent with most utilities, staff is recommending a 15% pass-through authorization
- Allows the city utility to conduct pass-throughs while reducing administrative burden

Proposed Five-Year Sewer Rates

- 4% per year uniform rate adjustment

Monthly Charges and Rates	CURRENT	Effective 7/1/2026	Effective 1/1/2027	Effective 1/1/2028	Effective 1/1/2029	Effective 1/1/2030
City Local Sewer Service Charges (Per EDU*)	\$11.29	\$11.98	\$12.46	\$12.96	\$13.48	\$14.02
IEUA Sewer Treatment Component (Pass-Through Rate)**	\$25.78**	\$29.45	\$29.45	Pass-through	Pass-through	Pass-through
Total	\$37.07	\$37.76	\$41.91	TBD	TBD	TBD

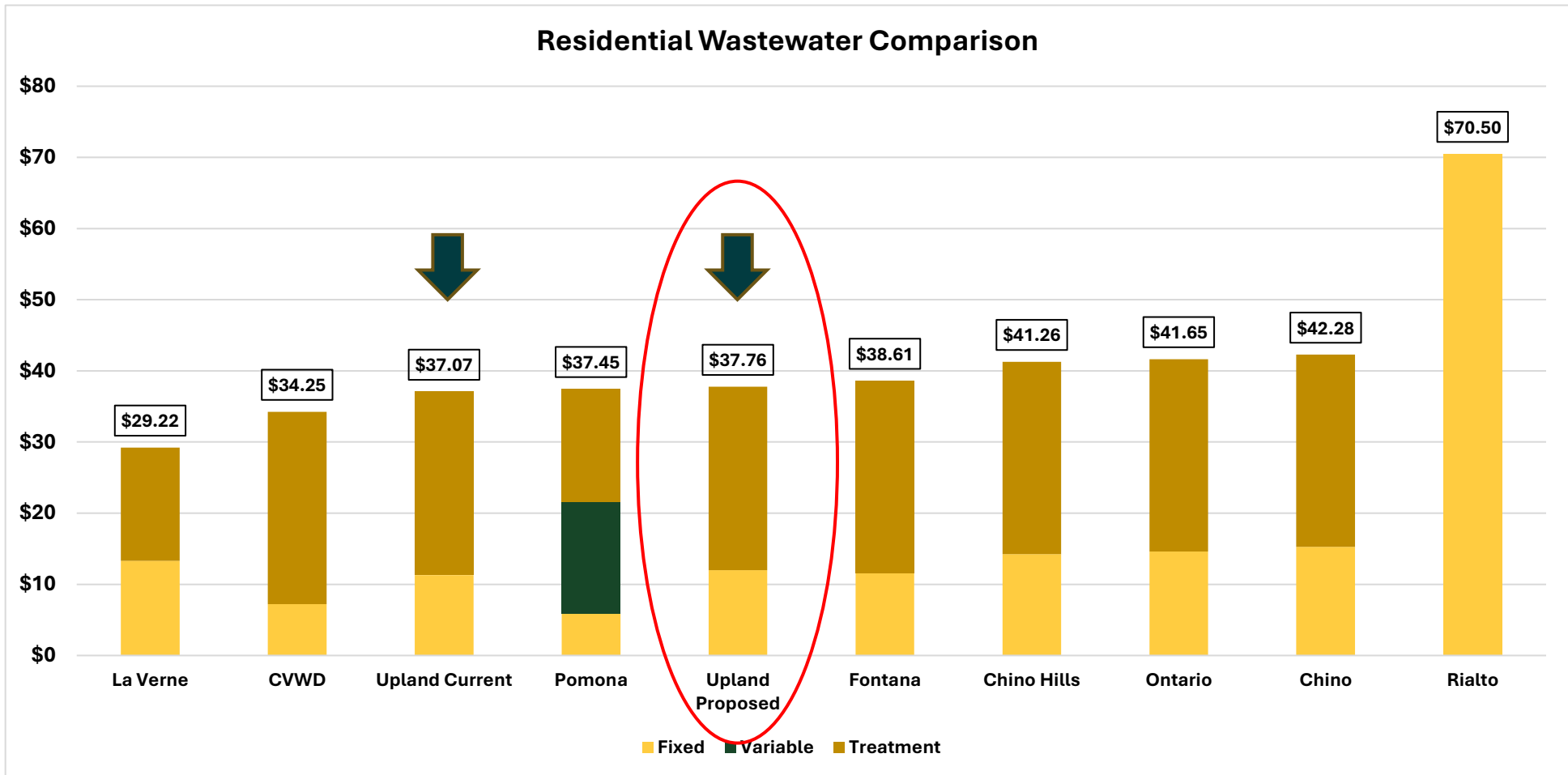
*The current EDU for multi-family customers is 0.7 per dwelling unit. Based on the actual housing density (number of people per household), the EDU for multi-family will be 0.89 EDU.

** The City currently charges only \$25.78 for IEUA even though the IEUA current rate is \$27.02 per EDU.



Regional Rate Comparison

Sewer Rate



*Approximate - Rounded to the nearest percentage point.





Balancing Cost Pressure & Customer Stability

Long-Term Fiscal Sustainability



- Prior Councils deferred certain rate adjustments
 - January 1, 2020 Rate Adjustment
 - Deferred on December 9, 2019
 - Deferred on March 9, 2020
 - Deferred on October 26, 2020
 - Implemented on August 9, 2021
 - January 1, 2022 Rate Adjustment
 - Approved February 27, 2023 but delayed until May 1, 2023
- Deferrals provide short-term customer relief but generate long-term fiscal impacts
- Current phased approach:
 - Stabilizes utility finances
 - Supports infrastructure reinvestment
 - Avoids larger future rate spikes

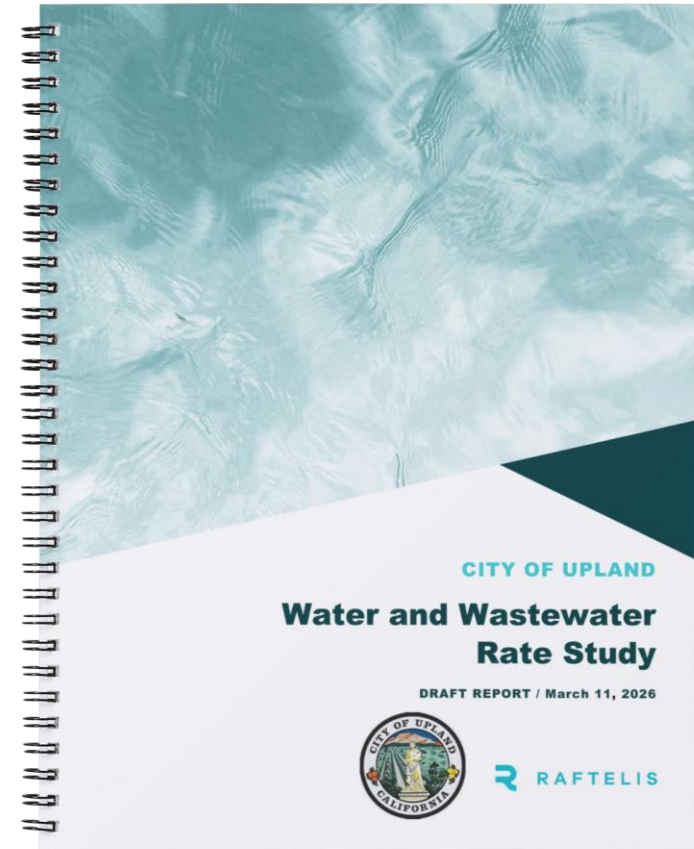
Goal: responsible and sustainable utility funding

Customer Impact & Affordability



Balancing Cost & Prudent Implementation

- Phased increases over five years
- Avoids sudden rate shocks to rate payers
- Generally, rates remain lower in many categories
- Maintains safe, reliable, and compliant utility services



Proposition 218 Process



What Happens Next

- Proposition 218 notices mailed
- 45-day public review period
- Public hearing tentatively on June 8, 2026
- Written protests counted
- Council may adopt rates if no majority protest

Image above is of the draft 218 notice and not representative of the actual document.

Prop 218 Notice Schedule

- Council Meeting
 - March 23, 2026
- Public Hearing:
 - June 8, 2026—tentatively
- Prepared with Raftelis
Financial Consultants



Summary



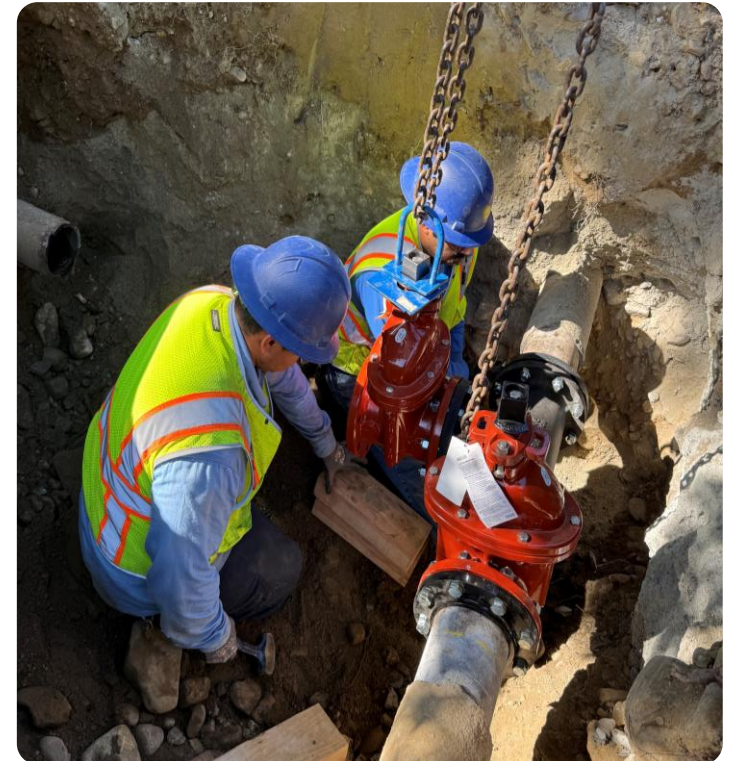
- Rate studies are the most comprehensive to date
- First rate study to consider establishment of comprehensive reserve policies
- Rates tied directly to cost of service
- City and IEUA charges are separate
- City sewer increases are conservative
- Action tonight starts the public process



Staff Recommendation



- Tentatively set a public hearing for June 8, 2026 to consider proposed water, recycled water, and sewer rate adjustments
- Direct staff to distribute the Proposition 218 notice
- Receive and file the Water, Recycled Water, and Wastewater Rate Study
- Consider and approve the recommended rate schedules and related adjustments, with proposed effective dates of July 1, 2026





Thank you!