



STAFF REPORT

City Council

Meeting Date: 5/12/2026

Staff Report Number: 26-076-CC

Public Hearing: Conduct a public hearing, rate protest hearing, and consider adoption of a resolution approving maximum rate increases for Menlo Park Municipal Water, with annual adjustments including pass-throughs of any increases in the costs of wholesale water from the San Francisco Public Utilities Commission, and establishing and setting water capacity charges

Recommendation

Staff recommends that the City Council open the public hearing on the proposed water rate increases, receive and consider comments as part of the public record, take no final action on the proposed water rates at this time, and continue the public hearing to June 9 for the consideration of the proposed rates.

Policy Issues

The City provides water service through Menlo Park Municipal Water (MPMW) as a city-owned water service provider for a portion of the City. The City Council is authorized to establish water rates that recover the full cost of providing water service, in accordance with the requirements of Proposition 218 (Prop. 218).

The City is legally obligated under Prop. 218 (California Constitution Article XIII D, Section 6) to set rate amounts that do not exceed the estimated revenue necessary to operate and maintain the system, invest in capital improvements, and cover other water system expenses as specified in the financial plans. To comply with these requirements, the City has proposed rate increases over the next three fiscal years that will not exceed the estimated full cost of providing service in accordance with the requirements of Prop 218.

Background

MPMW supplies water to approximately 4,400 customers, including residential, non-residential (commercial, industrial, institutional, irrigation), and fire services (Attachment A). Water is purchased from the San Francisco Public Utilities Commission (SFPUC) and delivered to properties within the service area. As a Bay Area Water Supply and Conservation Agency (BAWSCA) member agency, MPMW is represented with other cities and water districts in Alameda, Santa Clara and San Mateo counties who purchase water on a wholesale basis from the San Francisco Regional Water System. MPMW operates as a self-supporting enterprise fund. As such, it must develop a financial plan and set water rates that

provide sufficient revenue to meet all operation and maintenance expenses, capital improvement projects (CIP), and other revenue requirements independent of the City. On Feb. 24, staff presented an informational item to update the City Council on the Water Rate Study (Attachment B).

On March 10, the City Council approved sending the required Prop. 218 notices on the proposed maximum water rate increases for the next three fiscal years (2027 to 2029) and adopted a resolution establishing procedures for compliance with Assembly Bill 2257 (AB 2257) (Attachment C).

Following the March 10 City Council meeting, the Prop. 218 notices were mailed. On March 27, staff identified errors with the mailing addresses. After consulting with the city attorney's office, staff corrected the mailing list and reissued the Prop. 218 notices (Attachment D). To allow for the 45-day protest period, staff is recommending continuance of the public hearing to June 9. The notice shows the maximum rate increases for the next three fiscal years and provides directions to protest and object to the rates. Rates cannot be adopted if the City receives a majority protest (50% +1) from property owners of record or MPMW customers.

Analysis

Proposed water rates

The proposed rates meet the following objectives:

- Revenues adequately meet the financial needs for the next three years.
- Water system costs do not exceed the revenue needed to sustain the operations as required by Prop. 218.
- A cost-of-service analysis based on water system cost projections over the three-year period and rates that meet the future revenue needs per customer class.
- Allow for the minimum operating and capital fund reserves equivalent to 120 days of operating expenses to cover fluctuations in day-to-day operations plus \$1,000,000 for unexpected capital costs.
- Support plans for debt (borrowing \$16 million in year 2029) to help fund capital projects (projected \$60 million over the next three years).
- A uniform rate for water consumption.

At the March 10 meeting, the City Council evaluated four annual revenue adjustment options, considering different CIP implementation timelines from the study. The City Council selected a conservative capital improvement timeline, which proposes debt financing by year 2029, and results in the lowest rate increases to the monthly customer bills. Implementation of this option generates sufficient revenue to meet cost obligations while satisfying reserve targets and minimizing rate impacts to customers.

The maximum rates for each fiscal year are the highest rates that can be implemented within the next three years (fiscal years 2027 through 2029.) The selected option is described in Table 1.

Table 1: Summary of selected option			
CIP implementation timeline	Revenue increase	Fiscal year	Result/Impact
A conservative CIP	4.25%	2026-27 & 2027-28	• Debt financing of \$16M by 2029
	4.5%	2028-29	• Meets cost obligations
	5.0%	2029-30 & 2030-31	• Lowest rate impact to customers

The estimated monthly bill total and annual rate increase for a single-family home is described in Table 2. The average single family home consumption of 10 centum cubic-feet (ccf), which equates to 7,480 gallons.

Table 2: Proposed water rates for 5/8" meter		
Fiscal Year	Total amount billed for 10 ccf	% increase per year
2026-27	\$150.64	15.5%
2027-28	\$157.04	4.2%
2028-29	\$164.11	4.5%

Capacity charges for new/upgraded connections

Capacity charges are one-time fees that were included in the Study and are not subject to Prop. 218 requirements. The purpose of the water capacity charges is to fund a proportionate share of the costs of existing and future water system facilities that are necessary to provide water capacity for new development. The capacity fees are proposed to increase by approximately 17%. The updated water capacity charges would take effect Aug. 10, 2026, 60 days after approval based on Government Code Section 66017.

Next steps

Staff recommends that the City Council open the public hearing, receive and consider comments as part of the public record, take no final action on the proposed rates at this time, and continue the public hearing to June 9. Staff has included a draft resolution to adopt new rates, including charges for supplemental services (Attachment E).

Impact on City Resources

The continuance of the Public Hearing has no direct impact on City resources.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

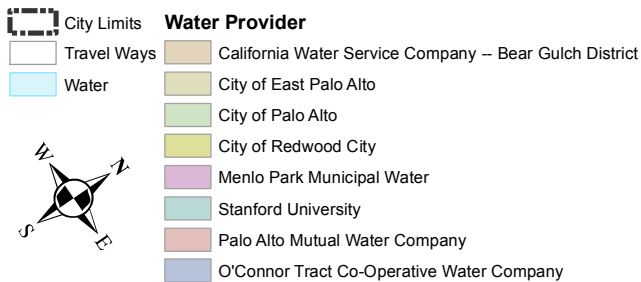
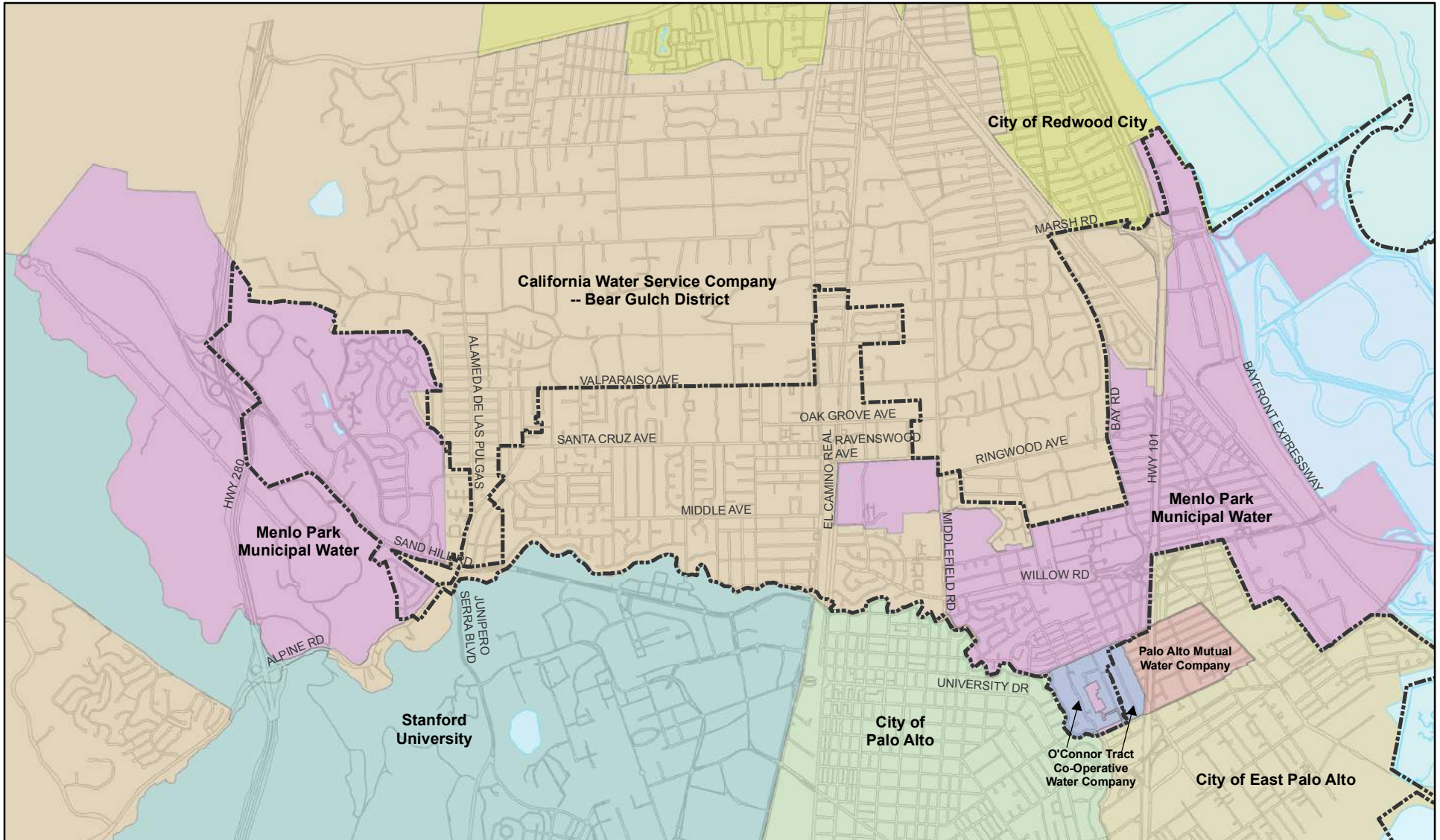
Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting. On April 6, the City mailed a notice of the public hearing to all property owners and customers, providing them the right to protest the proposed rates at least 45 days before the City adopts them at a public hearing.

Attachments

- A. MPMW map
- B. Hyperlink – Feb. 24 Staff Report #26-025-CC:
www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2026-meetings/20260224/k3-20260224-cc-water-rates-update.pdf
- C. Hyperlink – March 10 Staff Report #26-037-CC:
www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2026-meetings/20260310/h2-20260310-cc-prop-218-water-notification.pdf
- D. Hyperlink – Revised Prop. 218 Notice:
www.menlopark.gov/files/sharedassets/public/v/1/public-works/documents/water/update-water-rates-notice_prop-218.pdf
- E. Draft resolution

Report prepared by:
Eren Romero, Internal Services Manager

Report reviewed by:
Azalea Mitch, Public Works Director



Water Agencies Within and Surrounding Menlo Park



RESOLUTION NO. XXXX

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MENLO PARK APPROVING MAXIMUM RATE INCREASES FOR MENLO PARK MUNICIPAL WATER, EFFECTIVE JULY 1, 2026, WITH ANNUAL ADJUSTMENTS JULY 1, 2027 AND 2028, INCLUDING PASS-THROUGHS OF ANY INCREASES IN THE COSTS OF WHOLESALE WATER FROM THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION, AND ESTABLISHING AND SETTING WATER CAPACITY CHARGES

WHEREAS, the City of Menlo Park (City), through Menlo Park Municipal Water (MPMW), provides water service to property owners and customers within the relevant City service area, and MPMW receives all of its water supply from the City and County of San Francisco, through San Francisco Public Utilities Commission (SFPUC); and

WHEREAS, the SFPUC over the next three years projects wholesale water costs to increase by nearly 18%; and

WHEREAS, the City is authorized to establish fees, rates, and charges for the water services provided to each property owner in accordance with “Proposition 218” (California Constitution Article XIII D, Section 6; as it is implemented by the Legislature at Government Code Sections 53750 – 53759.2; and as it has been interpreted by judicial decisions), and the City is authorized to include annual passthrough adjustments to water rates for the cost of wholesale water in accordance with Government Code Section 53756. The City refers to those fees, rates, and charges as water rates; and

WHEREAS, consistent with those legal requirements, the City is authorized to establish and update water rates in amounts that do not exceed the estimated reasonable costs of providing the water services to each customer class, based on the following findings:

1. Revenues derived from the proposed water rates will not exceed the funds required to provide water service.
2. Revenues derived from the proposed water rates will not be used for any purpose other than that for which they were imposed.
3. The amount of the water rates imposed upon any parcel or person as an incident of property ownership will not exceed the proportional cost of the service attributable to the parcel.
4. The water rates are imposed for services that are actually used by, or immediately available to, the owner of the property in question.
5. The water rates are not being imposed for general government services; and

WHEREAS, May 11, 2021, the City Council approved Resolution No. 6625, setting the water rates that are currently in effect; and

WHEREAS, the City hired Black & Veatch Management Consulting (“Black & Veatch”) to review MPMW’s water rates to determine if they are adequate over time to pay for the anticipated increase in wholesale water costs, ongoing maintenance and replacement projects, ongoing operations costs, and any planned major capital projects; and

WHEREAS, Black & Veatch submitted the Water Rate Study dated March 5, 2026 (“Water Rate Study”), which recommends a revised water rate schedule for rate updates to be effective July 1, 2026, with annual increases to be effective July 1 of 2027 and 2028; and

WHEREAS, March 10, 2026, the City Council approved Resolution No. 7015, to establish rate setting procedures for updating water rates in accordance with Proposition 218 and Assembly Bill 2257 (AB 2257) (Government Code Sections 53759.1 and 53759.2), including the procedures by which the City will consider written protests (under Proposition 218) and written objections (under AB 2257) to the proposed water rates, and that resolution may be referred to

as the “Procedural Resolution”; and

WHEREAS, March 10, 2026, and the City Council authorized staff to mail notices to water service customers (which includes both property owners and tenants to whom bills for service are sent) regarding a public hearing to consider proposed updates to water rates; and

WHEREAS, consistent with that authorization from City Council, and pursuant to Proposition 218, the City initially mailed notices to customers (including property owners and tenants) of a public hearing to be held May 12, 2026; however, since the initial notice was not sent to all customers, an updated notice was mailed to customers for a public hearing to be held June 9, 2026; and, accordingly, the initial public hearing was duly opened May 12, 2026, and continued to June 9, 2026; and

WHEREAS, the mailed notice for the public hearing June 9, 2026, identified a deadline of May 25, 2026, for a property owner (including any tenant directly liable for payment of the water rates) to submit a written objection to the proposed update to water rates; and

WHEREAS, June 9, 2026, the City Council reopened and conducted the public hearing continued from May 12, 2026, and combined that continued hearing with an opening and conducting of the public hearing noticed for June 9, 2026, to consider proposed updates to water rates to be effective July 1, 2026, with annual adjustments July 1 2027 and 2028 (including passthrough charges for the cost of wholesale water from SFPUC, in accordance with Government Code Section 53756), as set forth on Exhibit A; and

WHEREAS, consistent with the Procedural Resolution, prior to the close of the public hearing June 9, 2026, the City Council considered any timely written objections, and City staff’s written responses thereto, and the City Council incorporated into the water rates on Exhibit A any reduction, alteration, or clarification to the water rates that were warranted by those written objections and written responses; and

WHEREAS, at the close of the public hearing June 9, 2026, the City Council considered all timely written protests to the proposed update to water rates and determined that, from the total number of 4,520 parcels that receive City water services, the City did not receive a timely written protest from owners (or qualified tenants) representing a majority of those parcels; and, therefore, a majority protest was not received before the close of the public hearing, and the City Council overruled any protests that were received; and

WHEREAS, the City Council determined, after having duly received and considered oral and documentary evidence during the public hearing concerning the necessity for the proposed water rates, that it is warranted and consistent with the requirements of Proposition 218 to establish the water rates as set forth in this Resolution; and

WHEREAS, the City is authorized to establish and impose a water capacity charge on new development in an amount that does not exceed the estimated reasonable cost of providing capacity in the City’s water system, in accordance with Government Code Section 66013; and

WHEREAS, the City also hired Black & Veatch to review MPMW water capacity charges to determine if they are adequate to pay for the costs of existing and planned public improvements that provide capacity to serve new development; and

WHEREAS, Black & Veatch developed a capacity fee analysis as part of the Water Rate Study, which recommends a capacity charge schedule to be implemented effective Aug. 10, 2026; and

WHEREAS, the purpose of the water capacity charges is to fund a proportionate share of the costs of existing and future water system facilities and assets that are reasonably necessary to provide water capacity for new development. For the purpose of this Resolution, “new

development” means all new building construction, conversion to a new use, or additional use within an existing building that creates a need for additional water capacity; and

WHEREAS, the City Council determined, after having duly received and considered oral and documentary evidence during the public hearing concerning the necessity for the proposed water capacity charges, that it is warranted and consistent with the requirements of Government Code Sections 66013 and 66016 to establish the water capacity charges as set forth in this Resolution; and

WHEREAS, pursuant to Government Code Sections 66013 and 66016, notice of the time and place of the meeting, including a general explanation of the matters to be considered and a statement that required data is available was mailed at least 14 days prior to the meeting to those members of the public who filed a written request with the City; and

WHEREAS, at least 10 days prior to the public meeting referenced above, the City made available for public inspection information required under Government Code Section 66016; and

WHEREAS, June 9, 2026, the City Council considered the proposed water capacity charges set forth in the Water Rate Study, at an open and public meeting, during which all interested persons were given an opportunity to comment; and

WHEREAS, this Resolution is not subject to the California Environmental Quality Act (“CEQA”) pursuant to Public Resources Code Section 21080(b)(8), and California Code of Regulations Section 15273 (of the “CEQA Regulations”) because it establishes, modifies, structures, or restructures, and approves rates and charges for the purposes of: (1) meeting operating expenses; (2) purchasing supplies, equipment and materials; (3) meeting financial requirements; and (4) obtaining funds for capital projects necessary to maintain service within existing incorporated City limits.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MENLO PARK HEREBY RESOLVES, as follows:

Section 1. The City Council hereby approves the water rates set forth on Exhibit “A,” attached hereto and incorporated herein by reference. The water rates include the monthly fixed meter charge, the water consumption charge, the capital facility surcharge, the unmetered fire fixed charges, and the drought surcharge. The water rates approved by this Resolution shall be implemented in accordance with Resolution Sections 1 through 4. The water rates are approved based on the City Council’s determination that the recitals set forth in this Resolution are true and correct and, accordingly, are incorporated as a material part of this Resolution.

Section 2. The water rates set forth on “Exhibit A” shall be effective July 1, 2026, for those rates that are identified for “Fiscal Year 2027.” Thereafter, the rates shall be annually adjusted so that the rates identified for “Fiscal Year 2028” shall be effective July 1, 2027, and the rates identified for “Fiscal Year 2029” shall be effective July 1, 2028, and those annual adjustments may be administratively updated by the city manager (or authorized designee) without additional action by City Council; provided, however, the effective date of each such annual adjustment shall be no sooner than 30 days after written notice is provided in accordance with Government Code Section 53756.

Section 3. In addition to the water rate amounts identified on Exhibit “A,” the city manager (or authorized designee) is authorized to adjust water rates based on increases in the costs of wholesale water from SFPUC, based on the formula set forth in Rate Study Section 3.4.1; provided, however, the effective date of each such adjustment based on a passthrough of wholesale water costs shall be no sooner than 30 days after written notice is provided in accordance with Government Code Section 53756.

Section 4. The water rates shall not be set in an amount that exceeds those set forth in

Sections 1 through 3 unless the City Council first conducts a noticed public hearing in accordance with the requirements of law including Proposition 218.

Section 5. The City Council hereby adopts the water capacity charges set forth in "Exhibit A" attached hereto and incorporated herein by this reference. The water capacity charges are approved based on the City Council's determination that the recitals set forth in this Resolution are true and correct and, accordingly, are incorporated as a material part of this Resolution. The updated water capacity charges shall be effective Aug. 10, 2026.

Section 6. The City Council hereby authorizes the city manager (or designee) to approve an annual adjustment to the water capacity charges based on impacts of inflation, as provided in this section 6. Any such adjustment shall be effective on the date it is approved in writing by the City Manager (or designee) and posted on the City's website. The amount of the adjustment to the water capacity charges shall not exceed the corresponding proportional change in the Engineering News Record Construction Cost Index for the San Francisco Bay Area, for the time period between the last approved effective date for the water capacity charge and the date of the adjustment.

I, Judi A. Herren, City Clerk of Menlo Park, do hereby certify that the above and foregoing City Council Resolution was duly and regularly passed and adopted at a meeting by said City Council on ninth day of June, 2026, by the following votes:

AYES:

NOES:

ABSENT:

ABSTAIN:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Official Seal of said City on this ____ day of _____, 2026.

Judi A. Herren, City Clerk

Exhibits

A. Proposed Menlo Park Municipal Water Rates 2027-2029



PROPOSED FISCAL YEARS 2027-2029 MENLO PARK MUNICIPAL WATER RATES

Public Works

701 Laurel St., Menlo Park, CA 94025

Proposed Fiscal Years (FY) 2027- 2029 Water Rates			
The table below provides a breakdown of the proposed water rates from July 1, 2026, to June 30, 2029. The City will mail a written notice to all customers at least 30 days prior to the effective date of any annual adjustment in rates, including any pass-through charge for wholesale water costs.			
Monthly Fixed Meter Charge (\$/Month)			
Meter size	FY 2027	FY 2028	FY 2029
5/8" or 3/4"	36.76	38.32	40.04
1"	61.26	63.86	66.73
1-1/2"	122.52	127.73	133.48
2"	196.03	204.36	213.56
3"	392.07	408.73	427.12
4"	612.60	638.64	667.38
6"	1,225.21	1,227.28	1,334.76
8"	1,960.33	2,043.64	2,135.60
10"	2,817.98	2,937.74	3,069.94
12"	5,268.39	5,492.30	5,739.45
Water Consumption Charge (\$/CCF)			
Tier 1 (0-6 CCF)	N/A	N/A	N/A
Tier 2 (7-12 CCF)	N/A	N/A	N/A
Tier 3 (Over 12 CCF)	N/A	N/A	N/A
*All Usage – Uniform for all	9.39	9.79	10.23
*The proposed water consumption charges to all customer classes will change from tiered rates to uniform rates for all.			
Capital Facility Surcharge (\$/CCF)			
All Usage	2.00	2.09	2.18
Monthly Unmetered Fire Fixed Charges (\$/Month)			
Meter size	FY 2027	FY 2028	FY 2029
1-1/2"	47.44	49.46	51.69
2"	75.90	79.13	82.69
3"	151.80	158.25	165.37
4"	237.19	247.27	258.40
6"	474.38	494.54	516.79
8"	759.00	791.26	826.87
10"	1,091.07	1,137.44	1,188.62
12"	2,039.82	2,126.51	2,222.20

Drought Surcharge (\$/CCF)			
Drought stage	FY 2027	FY 2028	FY 2029
Stage 1: Up to 10%	0.31	0.31	0.35
Stage 2: Up to 20%	0.69	0.71	0.78
Stage 3: Up to 30%	1.18	1.21	1.33
Stage 4: Up to 40%	1.84	1.88	2.07
Stage 5: Up to 50%	2.75	2.81	3.10
Stage 6: Greater than 50%	4.13	4.21	4.63

1. The drought rates represent the max rate per stage. The actual drought surcharge will be calculated based on the actual water conservation target that must be met.
2. Stage 6 represents water conservation greater than 50% (see rate study). The drought surcharge shown is for 60% reduction.

Capacity fee (one-time) for new connections / meter upgrades

Capacity fees are increased annually by the Engineering News Record – Construction Cost Index

Meter size	FY 2027	FY 2028	FY 2029
5/8" or 3/4"	9,326.00	TBD	TBD
1"	15,543.00	TBD	TBD
1-1/2"	31,086.00	TBD	TBD
2"	49,738.00	TBD	TBD
3"	99,476.00	TBD	TBD
4"	155,432.00	TBD	TBD
6"	310,864.00	TBD	TBD
8"	497,382.00	TBD	TBD
10"	714,987.00	TBD	TBD
12"	1,336,714.00	TBD	TBD