

Institutional Water Unit Rate Study

February 2008

Supplement to the
October 2007 Water Rate Study

Purissima Hills Water District



Prepared By



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Purissima Hills Water District Water Rate Study – Supplement – February 2008

This supplement is to be used in conjunction with the water rate study (Study) completed by the Purissima Hills Water District (District) in October 2007.

Background

In October 2007, the District completed a comprehensive Study to increase its water rates to its entire customer base. The Study was prepared to satisfy the substantive requirements for Proposition 218 as set forth in California Constitution, Article 13D, Section 6(b) pertaining to new or increased fees for property related services. The Study was prepared in accordance with industry standards and generally accepted principles for establishing water rates, fees and charges for water purveyors.

The District's water system was established in 1955. The system is operated by a governmental entity and the cost of providing water services are funded through water rates and user fees. These fees include a meter charge based upon meter size and a rate structure based on water usage. The system provides water service to a service area of approximately nine square miles. The service area consists of approximately 6,000 residents in the Town of Los Altos Hills, Santa Clara County, with 2,040 residential services and 47 institutional services including Foothill College, Pinewood High School and the Town's Little League fields. Water rates are established by the District's Board of Directors.

The Study recommended increasing rates both for the residential and institutional customers. Historically institutional customers had paid a flat rate. The Study proposed adopting a tiered rate structure for the institutional customers.

Institutional Customers

The District currently has 47 institutional customers which represents 2% of its service connections and approximately 6% of its water usage on an annual basis. Most of these customers are not-for-profit schools, governmental facilities and churches. In March of 2004, the institutional rates were increased from \$2.60 to \$2.95 per unit; therefore, it has been almost four years since the last water unit rate increase for institutional customers.

Existing and Proposed Institutional Customer Rates

On December 5, 2007, pursuant to District policy and Proposition 218, a public hearing was held to discuss the proposed water rate increase. After a presentation and comments from the public, the District's Board of Directors approved the recommended rate increase for residential customers but deferred a rate increase for the institutional customers. The Board requested the staff to re-examine the basis for a tiered structure and the water unit rates for institutional customers.

Based on the input received at the public hearing and direction from the Board, the institutional rates have been revised to maintain the current flat rate structure. Initially a tiered rate structure was recommended to promote conservation. However, further analysis of the institutional customers indicated a wide range of usage, from very small to the largest user in the District. Developing a tiered rate to accommodate this range of usage became

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problematic. In addition, discussions with institutional customers indicated that they are aggressively pursuing conservation, further reducing the need for a tiered rate schedule.

Projected Revenue

The new proposed flat rate of \$3.75 per unit for institutional customers is designed to be revenue neutral based on projected revenue. The institutional rates were calculated by dividing the projected residential revenues (for a representative year) of \$3,590,000 by projected usage of 958,500 ccf per year to derive a flat rate \$3.75 per ccf. Table 1 shows the existing rate and the proposed rates for institutional customers. Table 2 summarizes the existing and projected revenue for institutional customers.

Table 1 – Existing and Proposed Institutional Rates

Existing Rate Schedule		Proposed Rate Schedule Water Rate Study October 2007			Proposed Rate Schedule February 2008		
Billed Units (ccf)	Unit Rate	Billed Units (ccf)	Unit Rate	% Increase	Billed Units (ccf)	Unit Rate	% Increase
Flat Fee	\$2.95	1-10	\$2.15	-27%	Flat Fee	\$3.75	27%
		11-30	\$2.75	-7%			
		31-60	\$3.00	2%			
		61-100	\$3.25	10%			
		101-3,000	\$3.50	19%			
		3,000+	\$3.75	27%			

Table 2 – Institutional Customer Revenue (in \$000's)

	Revenue	% Increase
Existing Rates	\$191.2	--
Proposed October 2007 Rates	\$235.2	23%
Proposed February 2008 Rates	\$242.7	27%

The new proposed flat rate of \$3.75 per unit for institutional customers is designed to be revenue neutral based on projected revenue. The Study established an approximate annual revenue requirement for institutional customers of \$235,200. The projected revenue from institutional customers from the current proposed water unit rates is \$242,700 per year. The net effect of adopting a flat rate of \$3.75 per unit vs. the proposed tiered rate structure is a 3% or \$7,500 increase per year in revenue.

The proposed water unit rate increase for institutional customers meets the revenue requirements of the District as established in the Study while not exceeding the proportional cost of the service to the institutional customers.