

## ***Purissima Hills Water District Rate Increase Information***

**Rate Hearing Notice** Last month you received a notice regarding proposed rate increases and informing you of a public hearing to be held on Wednesday, December 5th, 7:00 p.m., at the District office. This notice complies with Proposition 218 (amending the California Constitution) which also states that a written protest by 50% of the customers will mandate cancellation of the increase. As a matter of policy going back several decades, your Board of Directors will consider any and all comments, objections, or suggestions regarding the proposed increases before they are adopted.

**Need for Rate Increase** The District's last rate increase in 2004 was intended to carry through 2006. The proposed rates will increase annual revenues by a total of 19% and is intended to cover cost increases experienced in 2007 and to provide adequate revenue through 2009. In 2009, we expect to sign a new contract with our supplier, the San Francisco Public Utilities Commission (SFPUC), which will include a new cost structure. A substantial increase is expected, although we do not yet know the amount. Water costs have already increased by 18% since 2004 and we expect this trend to continue.

District costs have increased significantly for capital projects, electric power, and fuel. For example, in 2004, the cost to install 8-inch pipe was \$110 per foot. Current cost is \$180 per foot—an increase of 63%. During the years 2004 through 2006, the State diverted \$626,000 from property tax revenue to cover the State budget deficit. This loss of revenue resulted in the deferral of some of the District's capital projects and the reduction of reserve funds. Although property tax revenues were restored in 2007, we will need to spend approximately \$1.3 million annually to catch up on capital projects because of the District's aging system. As a State-chartered public agency, the District is owned and supported financially by you, the customer, and is not allowed to operate with a deficit. Are we cutting costs? Yes. We are installing an automated meter reading system to free up personnel for more effective utilization, competitively bidding all outside contracts as a matter of policy to get the best prices, and developing additional revenue sources from telecommunication companies for antenna installation rentals on our properties.

**Capital Program** The District's five-year Capital Program was recently updated and is budgeted for \$1.3 million annually in the following key areas:

- Emergency water supply interties with Los Altos and Palo Alto.
- Replacing deteriorated and undersized pipe in critical areas. The District has 107 miles of pipe, 50% of which is over 40 years old.
- Developing supplemental water supplies for emergencies and to meet future needs (SFPUC, Santa Clara Valley Water District, California Water Service, well supplies, and water reclamation).
- Upgrading storage and pumping facilities that are worn out, obsolete, in need of expansion, or not in compliance with new regulations and seismic standards.

**Tiered Rate Structure** Following the rate restructuring initiated during the 1988-1993 drought, the District has had a tiered rate structure to provide incentive to conserve water. This has become a matter of public policy and convention within the water supply and energy industries. During the drought, supply allocations were reduced and, in spite of pleas to conserve water, the District exceeded its allotment and was forced to pay significant fines to the SFPUC. At present, the District is 40% over its supply assurance from the SFPUC and, if mandatory rationing is initiated, serious shortages and fines can be expected. The tiered rate structure not only provides an incentive to conserve water but also provides the capital funding for additional supplies and capacity to serve high users. During peak summer days, it is not uncommon for our pumps to run 24 hours per day to meet irrigation demands. This results in high peak power costs and demand charges from PG&E.

**Readiness-to-Serve Charge** The Readiness-to-Serve Charge (RTS) is a monthly fixed charge that is common to water utilities and is intended to partially offset the fixed costs of the District. The remaining fixed costs and all variable costs are incorporated in the water usage rates. During the winter months when water usage is low, the RTS provides an important revenue base.

**So as to provide adequate seating for all, please call the District office, 650/948-1217, if you will be attending the public hearing.**