



Date: June 10, 2010

To: WHWD Board

From: Patrick S. Garvey, District Engineer

Subject: WHWD Rate Study - Raw Water, Treated Water, and Wastewater Rate Increases

Western Hills Water provides raw water, treated water, and wastewater services to the developed portions of Oak Flat within the Diablo Grande subdivision. Raw water is pumped from the California Aqueduct uphill seven miles to Diablo Grande and is lifted over a thousand feet. The principal costs for the raw water service are the price of the water purchased through a water supply contract with Kern County Water Agency and the cost of electricity for pumping the water uphill. Once the raw water is pumped to Raw Water Pump Station No. 4, near the entrance to the Oak Flat portion of the Diablo Grande subdivision, water is either routed to the golf courses and or sent to the water treatment plant to be treated and used by the residences. The raw water rate charged to the golf courses was increased 150% on September 1, 2009, from \$350 per acre-foot to \$875 per acre foot. However, the treated water rates have not been changed since they were originally established on March 25, 1999.

A rate study by Parsons & Associates on raw water, treated water and wastewater services was started late last year and was completed in May 2010. The purpose of this study was to:

- Comply with state regulations covering user charges (40 CRF 35.2208)
- Analyze and project the District's future revenues and revenue requirements
- Prepare a cost of service analysis
- Review existing rate structures and propose an equitable raw water, treated water, and wastewater rate structure alternatives, if appropriate, based on customer classifications and characteristics
- Design a proposed schedule of raw water, treated water, and wastewater rates, based on cost of service that will generate adequate revenues

The first step of the Water and Wastewater Rate Study is to estimate future revenues of the water and wastewater system under existing rates and fees. Projections are then

made for operating expenses. The corresponding revenues are then evaluated to determine if they are adequate to meet the operating expenses. The study period is defined as ten years for planning purposes (fiscal years 2009-10 through 2018-19). Fiscal years are from July 1 through June 30.

The second step is a cost of service analysis that distributes expenses in accordance with various customer class demands. This distribution of costs provides for uniform unit costs to all customers. Customer classifications are then assigned costs based on their own customer demands or loadings to the water and wastewater facilities. The cost of service analysis provides a guide toward making rate adjustments for each customer class. From the results of the cost of service analysis, the final step, rate design, is accomplished.

The Rate Study report covers user rates for raw water, treated water, and wastewater, using a planning horizon of 10 years. Based on input from World International, a growth projection totaling 500 new residential customers would be added over the next 10 years to the existing 368 existing residential service connections. The growth rate projected is non-linear, with a majority of the residential units coming on-line after 2015.

The adopted WHWD 2009 Budget, 2009 Water Demand and 2009 Sewer Generation records were used as the basis for the rate study. The projected budgets for the raw water, treated water and wastewater were inflated using 3.5 percent annually. Rates for the three services only cover operational costs, and not infrastructure financing, or capital replacement. Treated water rates also include an estimated \$120,000 annually to the budget for additional monitoring and water treatment plant services involved with the use of chloramines.

Prop 218 Issues

Proposition 218 (Prop 218) was voter approved in 1996 and requires the WHWD give notification to all property owners of rate increases on water and wastewater rates. This notification takes the form of a mailing that includes the proposed rate, reasons for the rate increase, information on the public hearing, and instructions for those who wish to protest the rate increase. If the majority of property owners protest the rate increase, then the rate increase would not be implemented. It is proposed that the public hearing be scheduled for August 5, 2010. At that time, WHWD Board would be considering the introduction of an ordinance adopting the proposed rates. The WHWD Board would consider passage of the ordinance at its regular board meeting on August 12, 2010. If adopted by four affirmative votes of the Board members, the ordinance would be published in a local newspaper and take effect 30 days after its passage. Based upon the schedule set forth below, it is recommended that the new rates go into effect on October 1, 2010. Additional information on the issues with Prop 218 has been provided by the WHWD General Counsel.

Raw Water Rate Summary

The WHWD raw water customers are the golf courses and any other users that have the facilities to accept raw water within the service boundary of the District.

Currently, WHWD charges \$875 per acre foot of raw water.

The Rate Study determined that raw water presently costs the District approximately \$1,003 per acre foot to provide to our customers. This includes the price of water purchase, the cost of electricity to pump the water uphill from the California Aqueduct, maintenance and operation of the pump stations and pipeline, and the District's overhead and administrative costs.

The new rates provide for a 3 year stepped phase in of the rates as shown in the table below. The rates are based on the WHWD 2009-2010 budget and a 3.5% annual inflation adjustment was applied for following years. Presently, only 44 percent of the total expenses for raw water are covered in the current rate charges.

PROPOSED RAW WATER RATE INCREASES						
	Current Rate	2010-11	2011-12	2012-13	2013-14	2014-15
Raw Water	\$ 875.00 ¹ per acre-foot	\$ 938.00 per acre-foot	\$ 1030.00 per acre-foot	\$ 1126.00 per acre-foot	\$ 1169.00 per acre-foot	\$ 1214.00 per acre-foot

¹ The rate was increased to \$875 per acre foot from \$350 per acre foot, a 150% increase, on September 1, 2009.

Treated Water Summary

The WHWD treated water customers are the residences and any other users that have the facilities to accept treated water within the service boundary of the District.

Commercial users within the WHWD service boundary are non residential users that have the facilities to accept treated water. Examples of these

Currently, WHWD treated water rates are as follows:

CURRENT TREATED WATER RATES	
Residential Water Use Charge	\$35 per month plus \$1.25 for every 750 gallons
Commercial Water Use Charge	\$1.25 for every 750 gallons

The new rates provide for a 3 year stepped phase in of the rates as shown in the table below. Presently, only 42 percent of the total expenses for treated water are covered in current rate charges. Treated water rates do reflect proposed additional operational costs of \$ 120,000 annually for the Chloramination System.

Rates for treated water service were based on the FY2009 -2010 adopted budget. The cost per million gallons was then computed for FY 2009 to 2010. A 3.5% inflation rate as well as the growth rate was factored into the cost projections for the following years. The growth rate that was factored in increased the projected overall increased demand for water well as the number of units the costs could be spread. The growth rate projected was non liner. The overall rates are sensitive to the overall number of units.

The WHWD pricing system made up of two elements: a fixed monthly service charge and a uniform volume charge. The fixed monthly charge is collected whether the customer is uses water or not during the period billed. The fixed monthly charges exclude any water. The uniform volume charge is set for every 750 gallons of water.

The base and volume rates are designed to encourage the most efficient use of the District’s facilities and encourage the efficient use of treated water. The base rate was also set to be in line with the existing base rate. The volume charges where then set to fund all remaining treated water costs.

PROPOSED WATER RATE INCREASES						
	Current Rate	2010-11	2011-12	2012-13	2013-14	2014-15
Residential Water Use Charge	\$35 per month plus \$1.25 for every 750 gallons	\$37.50 per month plus \$9.25 per 750 gallons	\$51.00 per month plus \$11.99 per 750 gallons	\$65.00 per month plus \$11.72 per 750 gallons	\$65.00 per month plus \$11.91 per 750 gallon	\$65.00 per month plus \$11.82 per 750 gallons
Commercial Water Use Charge	\$1.25 for every 750 gallons	\$37.50 per month plus \$10.81 per 750 gallons	\$51.00 per month plus \$12.36 per 750 gallons	\$65.00 per month plus \$14.84 per 750 gallons	\$65.00 per month plus \$14.72 per 750 gallons	\$65.00 per month plus \$14.64 per 750 gallons

Wastewater Summary

The WHWD has an agreement with the City of Paterson to treat and dispose of wastewater generated within the service boundary of the District. This agreement required the WHWD to pay 1.5 times the City of Patterson’s standard residential wastewater fee.

Currently, WHWD charges \$25.00 per residential unit per month for wastewater service. The City of Patterson charges the WHWD \$39.54 per residential unit per month.

The new rates provide for a 3-year stepped phase in of the rates as shown in the table below. The WHWD will need to pass through the City's new rates at 1.5 times for each residential service connection for treatment and disposal which will be in addition the District's wastewater collection system costs. The proposed rates exclude funds for equipment replacement, an operating reserve, or debt service costs. The City has already issued notices to Diablo Grande property owners of its proposed rate increases and the City is scheduled to adopt the proposed rate increases this month.

RESIDENTIAL PROPOSED WASTEWATER RATE INCREASES						
	Current Rate per month	2010-11 Rate per month	2011-12 Rate per month	2012-13 Rate per month	2013-14 Rate per month	2014-15 Rate per month
City of Patterson Sewer Charges	\$25.00 ¹	\$42.71 ²	\$46.13 ²	\$49.82 ²	\$52.80 ²	\$55.97 ²
District Administration and Collection Costs	----	\$10.87 ³	\$12.16 ³	\$14.50 ³	\$13.61 ³	\$12.88 ³
Total	\$25.00	\$53.58	\$58.29	\$64.32	\$66.41	\$68.85

¹ The District is currently paying \$39.54 per sewer hookup to the City of Patterson but the District is only charging \$25.00 to its customers.

² City of Patterson's proposed sewer rate increases, which are scheduled for adoption in June 2010.

³ District proposed Administration and Collection charges. The term "Collection" here refers to the maintenance of the collector pipelines from each hookup to the pipeline taking the wastewater from Diablo Grande to the City of Patterson.

COMMERCIAL PROPOSED WASTEWATER RATE INCREASES					
	2010-11	2011-12	2012-13	2013-14	2014-15
City of Patterson Wastewater Charges (flat rate per month) ¹	\$ 42.70 ²	\$ 46.13 ²	\$ 49.82 ²	\$52.80 ²	\$55.96 ²
City of Patterson Wastewater Charges (over 10 ccf ¹ –rate per ccf per month)	\$2.43 ²	\$2.63 ²	\$2.83 ²	\$3.00 ²	\$3.18 ²
District Administration and Collection Costs (rate per ccf ¹ per month)	\$4.38 ³	\$4.44 ³	\$4.50 ³	\$4.23 ³	\$3.99 ³

¹ ccf= one hundred cubic feet= 748 gallons

² City of Patterson's proposed sewer rate increases, which are scheduled for adoption in June 2010. The rates shown are 1.5 times the City of Patterson's proposed rates for commercial wastewater service per the WHWD's contract with the City.

³ District proposed Administration and Collection charges. The term "Collection" here refers to the maintenance of the collector pipelines from each hookup to the pipeline taking the sewage from Diablo Grande to the City of Patterson.

Requested Board Actions

1. Approve the Rate Study.
2. Propose adoption of the rates set forth in Tables 6, 8, and 10 of the Rate Study, which is a phase-in of the new rates over a three-year period. The Rate Study assumes phase in of the new rates starting with FY 10 – 11. Rates for FY 09 - 10 should be disregarded, since by the time the new rates will be in effect the fiscal year will be over.
3. Approve forms of Notice of Proposed raw water, treated water and wastewater rate increases (copies attached).
4. Authorize District staff to mail out Notices of Proposed Rate Increases and authorize funding for those activities.
5. Set a public hearing on the proposed rate increases for August 5, 2010

Schedule

June 10, 2010 Regular WHWD Board Meeting

- Adopt Rate Study
- Adopt Staff Report on Rate Study
- Adopt Notice to increase water rates
- Adopt Notice to increase wastewater rates
- Adopt effective date of proposed rate increases
- Authorize staff to issue landowners notice of rate increases

Notices should go to:

- Parcel owners whose parcel is currently receiving water and wastewater services
- Parcel owners whose parcel is currently provided a service connection that can have a meter hooked up immediately, but the parcel owner is not currently receiving service.

June 17, 2010 - Approximate date WHWD staff mails notice of proposed rate increases

July 8, 2010 - Regular WHWD Board Meeting – adjourn meeting to August 5 for public hearing.

August 5, 2010 – Adjourned Regular WHWD Board Meeting – hold public hearing on proposed rate increases, count valid written protest, and introduce ordinance adopting proposed rate increases if no majority protests.

August 12, 2010 - Regular WHWD Board Meeting – vote on passage of ordinance adopting the proposed rate increases; passage requires four affirmative votes. Ordinance would take effect 30 days after its passage.

October 1, 2010 – New rates would go into effect.