



## EID 2010 Operating Budget

The El Dorado Irrigation District Board of Directors adopted the District's current operating budget during the February 8, 2010, regularly scheduled Board meeting.

Estimated revenues and expenses and other relevant information pertaining to the budget are contained in the following Agenda Item Summary that was prepared for the February 8 meeting.

**EL DORADO IRRIGATION DISTRICT**

**Subject:** Consideration of the 2010 Revised Mid-Cycle Operating Budget.

<b><u>Board Action:</u></b>	
March 20, 2000:	The Board adopted a multi-year operating budget process.
December 15, 2008:	The Board adopted the 2009-2010 operating budget.
November 9, 2009:	The Board held a 2010 Mid-Cycle Operating Budget Workshop
November 23, 2009:	The Board adopted the 2010 revised budget and directed staff to issue a Proposition 218 notice for rate increases of 35% in 2010, 15% in 2011 and 5% per annum for 2012, 2013 and 2014.

**Board Policy/Administrative Regulations:**

**BP 3010:** It is the responsibility of the General Manager to inform the Board about financial operations of the District so the Board can make informed decisions and fully discharge its legal responsibilities in a fiscally sound manner. The Board shall adopt a two-year operating budget and may modify it prior to the end of the year.

**BP 11010:** The District shall strive to recoup all costs of providing services through rates, fees, charges, fines, and deposits. The Board will adopt changes in rates pursuant to Article XIIIID Section 6 of the California Constitution (Proposition 218).

**Summary of Issue:**

On November 23, 2009, the Board adopted a revised 2010 budget that included proposed increases in water, wastewater, and recycled water rates. Concurrent with the budget adoption, the Board directed staff to issue a Proposition 218 notice for the proposed rate increases cited above. The notice was mailed December 16 and 17, 2009.

Staff's rate proposal was then modified as a result of community workshops and the Proposition 218 public hearing and protest procedure. An ongoing initiative to increase power generation revenues reached sufficient certainty to revise the projected revenues in the budget. Staff identified a means of restructuring the District's existing

debt to reduce the debt burden by approximately \$4 million in each of 2010, 2011, and 2012. Staff proposed substantial additional cuts and deferrals to the District's draft 2010-2014 Capital Improvement Program (CIP), to delay and reduce the need for additional future borrowing. Finally, staff believes that the current 2010 projection of \$3 million in Facility Capacity Charge (FCC) revenues should be reduced to \$1.5 million. Staff also continues to work diligently to identify and implement – with union concurrence where required – additional reductions to operating expenses.

These initiatives enabled staff to develop a revised “Plan B” proposal for rate increases, consisting of an 18% increase in 2010, 15% in 2011, and 5% in 2012, plus two additional annual increases of 5% to be authorized but not implemented without further public Board action. The Board held its public hearing on the proposed rate increases on February 4, after this staff report was written.

The foregoing changes in revenue and debt service projections, as well as any rate increase actions taken by the Board on February 4, necessitate further revision of the 2010 operating budget. The contents of this staff report assume that the Board has approved the Plan B rate increases of 18% in 2010. If the Board takes other action on February 4, staff will amend its recommendation accordingly when the Board hears this item on February 8.

### **Staff Analysis/Evaluation:**

#### **November 23, 2009 Adopted Budget and Rate Increase Proposal**

At the November 9, 2009 budget workshop, staff presented a revised 2010 operating budget of \$44.316 million, just \$14,000 more than the revised 2009 budget. Staff committed to reducing operating expenses by an additional \$1 million, and the Board directed staff to bring back recommendations, including rate increases, to meet the District's legal obligations under its bond covenants—in 2010 and into the near future.

At the November 23 budget hearing, staff recommended a series of rates increases to enable the District to meet its bond covenants in 2010 and beyond and, over time, relieve the District of over-reliance on FCC income to meet debt obligations.

With respect to the 2010 budget, staff recommended:

- A 35% rate increase to the current water, wastewater, and recycled water rates.
- A \$425,000 increase in revenues from implementation of the adopted cross connection inspection fee and industrial pretreatment program fees.

Staff's commitment to reducing the \$1 million from the operating expense side of the budget was reflected as “Additional operating expense reductions” in the adopted budget on November 23, 2009.

## **Proposition 218 and “Plan B”**

Following the adoption of the 2010 budget, staff prepared and issued a Proposition 218 notice notifying ratepayers of the District’s intent to raise rates for water, wastewater, and recycled water service charges by 35% in 2010, 15% in 2011, and 5% per annum for years 2012, 2013, and 2014. Several significant events occurred after the mailing of the notice. The District received considerable resistance to the proposed rate increases, and staff held four public workshops to discuss the proposal. Through the workshop process, staff received many good suggestions used to create an alternative “Plan B” rate and budget proposal that differed from the 2010 Adopted Budget approved on November 23, 2009.

Therefore, the staff report for the February 4, 2010 rate hearing proposed Plan B: the 2010 rate increase was cut approximately in half, to 18%. Maximum increases in 2011 and 2012 remained at 15% and 5%, respectively. Because financial projections showed that 5% increases in 2013 and 2014 were also warranted to put the District on a sound long-term financial footing, staff recommended that the Board *authorize* all five years of increases under Plan B. However, staff recommended that the Board *implement* only the 2010, 2011, and 2012 rate increases.

### **Additional Revisions to 2010 Operating Budget**

The reduction in the proposed 2010 rate increases and the revised revenue and debt service projections detailed above require the Board to adopt a further revised 2010 operating budget. Significant changes to the 2010 Adopted Budget and associated financial planning are:

1. Restructuring of a portion of the outstanding 2003A debt to mature after fiscal 2020 to reduce debt service in 2010-2012 and correspondingly the amount of rate increase needed in 2010. A companion item on the February 8 agenda (along with an item in the meeting of the EID Finance Corporation) will authorize this restructuring, to be completed before March 1.
2. Reevaluation of the draft Capital Improvement Plan (CIP) for 2010-2014 for those projects identified as critical to defer into the future the need for additional bond financing. The reevaluation reduced planned CIP expenditures from \$200 million for the five years to approximately \$130 million. The final CIP will be presented to the Board for adoption in late February or early March.
3. Potential hydroelectric revenues ranging from \$6-10 million annually, rather than the \$3.5 million budgeted for 2010. Negotiations for this contract are well advanced, but not complete. Therefore, staff is projecting \$6 million in 2010 revenues, and \$8 million per year thereafter.
4. Reduction of the proposed rate increase in 2010 from 35% to 18% and the proposal that the Board authorize but not implement years four and five of the proposed rate increases.
5. Reduction of FCC revenues to \$1.5 million, rather than the \$3 million projected in the 2010 Adopted Budget.

Staff's analysis reflected in Table 1, below, reflects the implementation of "Plan B" and these other factors for the 2010 budget.

**Table 1: Revenue projections: 2010 Adopted Budget (November 23, 2009) and Proposed 2010 "Plan B" Budget (in millions of dollars)**

	<b>2010 Adopted Budget (11/23/09)</b>	<b>2010 "Plan B" Revised Budget</b>
Water sales and services <sup>(1)</sup>	\$ 26.154	\$ 23.073
Wastewater sales and services <sup>(1)</sup>	20.822	18.641
Recycled water sales <sup>(1)</sup>	1.203	1.052
Hydropower sales <sup>(2)</sup>	3.500	6.000
Investment income	1.200	1.200
FCCs <sup>(3)</sup>	3.000	1.500
Debt surcharges	2.291	2.291
Property tax	10.429	10.429
Other income	1.525	1.100
Recreation	1.040	1.040
FEMA reimbursement	.000	0
<b>Total revenues</b>	<b>\$ 71.164</b>	<b>\$ 66.326</b>

(1) The 2010 "Plan B" budget reflects an 18% rate increase for water, wastewater, and recycled water services.

(2) Anticipated increase in hydroelectric revenues through a new power purchase agreement.

(3) Projections for 2010 reflect the anticipated slow recovery in construction.

### **Analysis of 2010 Expense Projections**

When the annual budget review process begins, the Finance Department provides department heads and division managers with actual operating costs for the past two years and through the most recent month of the current year, along with projections to the current year's end. Based on past and current expenditures, operational commitments for the coming year, and workload indicators, department staffs develop proposed budgets.

Table 2, on page 5, identifies types of expenses for the 2010 operating expense budget adopted November 23, 2009 and includes the additional \$1 million in expense reductions,

which will be identified by the General Manager. Besides this reduction, staff will continue to work to identify and implement additional reductions in operating expenses. By law, many such reductions require union concurrence to be implemented. Negotiations for a new union contract are ongoing, and we anticipate presenting a proposed contract for Board action within approximately one month.

**Table 2: 2010 Proposed “Plan B” Budget by Type of Expense (in millions of dollars)**

	<b>2010 Adopted Budget (11/23/09)</b>	<b>2010 Revised Budget</b>
Salaries	\$ 19.218	\$ 19.218
Benefits	11.126	11.126
Materials and services	16.780	16.780
Grants	(.345)	(.345)
CIP and developer reimbursement labor offsets	(3.127)	(3.127)
Additional operating expense reductions	(1.000)	(1.000)
Letter of credit fee – Dexia Bank	.664	.664
<b>Total</b>	<b>\$ 43.316</b>	<b>\$ 43.316</b>

**Debt service coverage:**

The installment purchase agreements associated with the District’s debt issuances require the District—to the fullest extent permitted by law—to fix, prescribe, and collect rates and charges so that revenues exceed operating expenditures, including debt payments, by 1.25. The District may make adjustments from time to time in its rates and charges, but cannot reduce those rates and charges unless the District’s net revenues from reduced rates and charges will at all times be sufficient to meet the debt service coverage of 1.25. Table 3, on page 6, shows the debt service coverage for 2010 will be met in the proposed 2010 “Plan B” budget.

**Table 3: Debt service coverage for 2010 (millions of dollars)**

	<b>2010 Adopted Budget</b>	<b>2010 “Plan B” Budget</b>
Estimated revenues	\$71.164	\$66.326
Estimated operating expenses	(43.316)	(43.316)
Net revenues	\$ 27.848	\$ 23.010
State loans (preexisting)	1.079	1.079
Available net revenues	26.769	21.931
Debt service	21.452 <sup>(1)</sup>	17.114 <sup>(1)</sup>
Debt service ratio	1.25	1.28

<sup>(1)</sup> Debt service for 2010 is projected to be lower because of the 2003A debt restructure.

Table 4, below, shows the projected debt coverage for 2010 and for the years 2011 through 2014 with the implementation of “Plan B”. The calculations include the proposed rate increases (including 2013 and 2014 increases) and projected operating expenditures. Note that the calculations also include the internal financial control test staff proposed for Board adoption on February 4 – an Alternative Debt Ratio of 1.0, to be achieved before Facility Capacity Charge (new hook-up) revenues are taken into account.

**Table 4: Projected debt service coverage 2010 through 2014 (millions of dollars) with proposed rate increases**

	2010	2011	2012	2013	2014
Estimated revenues <sup>(1)</sup>	\$ 66.326	\$76.274	\$79.030	\$85.193	\$88.211
Estimated operating expenses	43.316	44.189	45.525	46.442	47.378
Net revenues	23.010	32.085	33.505	38.751	40.833
State loans	1.079	1.079	1.079	1.079	1.079
Available net revenues	21.931	31.006	32.426	37.672	39.754
Debt service	17.114	23.626	23.790	29.549	31.288
Debt service ratio	<b>1.28</b>	<b>1.31</b>	<b>1.36</b>	<b>1.27</b>	<b>1.27</b>
FCCs excluded	1.5	3.0	3.0	7.0	7.0
Alternative debt ratio (1.0 test)	<b>1.19</b>	<b>1.19</b>	<b>1.24</b>	<b>1.04</b>	<b>1.05</b>

**Board Decision/Options:**

Option 1: Adopt the El Dorado Irrigation District 2010 Revised Mid-Cycle Operating Budget with revised revenues of \$66.326 million and operating expenditures of \$43.316 million.

Option 2: Take other action as recommended.

Option 3: Take no action.

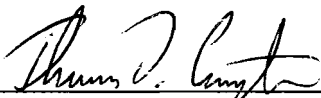
**Staff/General Manager's Recommendation:**

*Option 1*



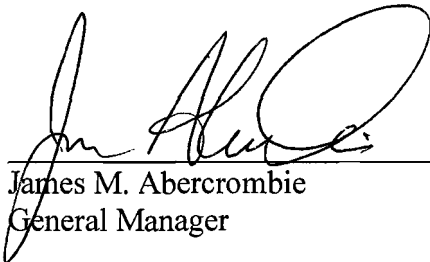
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