

How do EID rates compare with other water utilities?

Chart 1 compares EID bills with other water utilities for residential customers using a medium amount of water. Chart 2 compares EID bills for average residential wastewater services with other wastewater agencies. The EID columns show bills under current rates (green), and—for 2010—the original 35-percent proposed rate increase (yellow) and Plan B's proposed 18-percent increase (red). Amounts for the other utilities reflect rates in place as of October 2009. The calculations in the charts include the base charge plus the commodity charge for the water used. [Source: Bartle Wells Associates, Inc.]

Chart 1 **Water bill comparison**

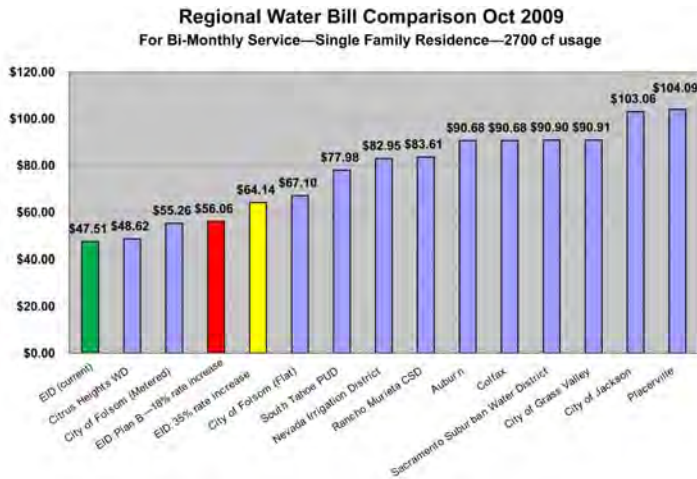
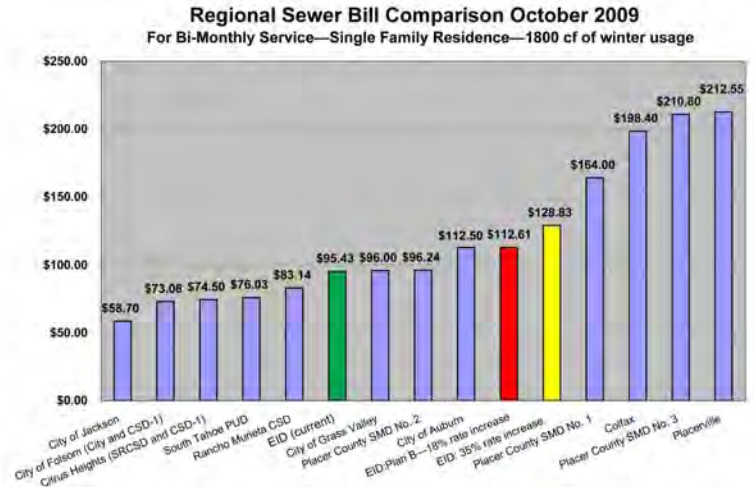


Chart 2 **Wastewater bill comparison**



Why a rate increase?

- The district adopts a two-year budget, which is revised in mid-cycle. The revised revenue projections for the 2010 budget are significantly lower than when this budget was first adopted in December 2008.
 - The primary factor? Income from hook-up fees for new development fell 95 percent short of projections, far more than anticipated. In the past, these fees helped to hold down rates for existing customers.
- We finance capital improvement and replacement projects through the sale of bonds. Under our bond covenants, our net revenues must exceed our debt service costs (interest and principal payments) by 25 percent.
- Our current revenue projections show that we will not meet our bond covenant obligations without the rate increases proposed in Plan B (see other side of this information sheet).
- The consequences of not meeting our debt obligations are both legal and financial. They include the potential takeover of the district by a court-appointed trustee loyal only to the bondholders, instead of a local board accountable to voters. And we would lose our excellent credit rating. That would cause huge spikes in interest rates, which could quickly add up to \$10 million a year to the debt payments.

What has the district done to hold down expenses?

The other side of this information sheet lists actions the district has taken over the past few months to reduce the impact on customers of the proposed rate increases described in the Proposition 218 notice. Those actions resulted in Plan B, which lowers the proposed rate increases for 2010 by about half.

During the two years before taking the most recent actions, the board and staff cut budgeted expenses by \$8 million. The revised 2010 budget is lower than any district budget since 2006. Here's what we did.

- Refinanced \$110 million in bonds in early 2008. That resulted in much lower interest rates than would have been the case if we had done nothing.
- Downsized management by 39% in 2008, saving \$1.1 million in 2009 and \$1.4 million annually beginning in 2010.
- Achieved another \$5 million in savings at the end of 2008 through cuts in materials and services line items, the unfortunate layoff of 31 employees, and the elimination of then-vacant positions plus additional vacancies due to retirements. In all, the district has cut its workforce by more than 20 percent since early 2008.
- Deferred \$95 million of capital improvement projects to conserve cash and reduce the need for future borrowing.
- Cut operating costs another \$1 million in the fall of 2009 through reductions in materials and outside services.

To continue to provide safe, reliable services and keep costs down over the years, the district has applied for and received grants worth \$27 million since 2003. The grants helped to pay for water reliability projects (\$17.2 million), improvements to recreation facilities (\$5.7 million), water conservation programs (\$1.1 million), and alternative energy projects (\$3 million), which reduce the district's electricity bills by several hundred thousands of dollars all year long.

We encourage customers to visit EID's website, www.eid.org, and click at the top of the home page under "Proposition 218 Notice" for more about Plan B and to view presentations from the public workshops, related news releases, and other materials.

El Dorado Irrigation District

“Plan B” Proposed Rate Increases — Key Issues

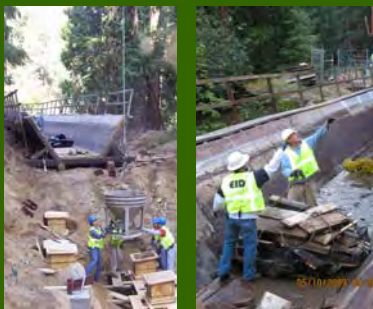
February 2010



Securing water rights



Providing high-quality water



Rebuilding the water conveyance system



Revitalizing the wastewater collection system



Generating energy and revenue

In December 2009, EID sent Proposition 218 notices to customers. The notices explained proposed rate increases over a 5-year period, from 2010 through 2014. We heard loud and clear from customers that they believed the proposed increases were too high. We listened and went back to the drawing board to see what could be done to lessen the impact on customers. “Plan B” is the result. It proposes rate increases for 2010 that are nearly half of the original proposal, and it contains a number of actions that are meant to avoid rate shock in the future.

How did we get to Plan B?

- We continued negotiations with buyers to improve the price we are paid for the hydropower we generate. Those negotiations have now progressed to the point where we can project \$6 million to \$10 million in power revenue a year into the future, rather than the \$3.5 million estimated in the 2010 budget.
- We are restructuring our debt payments, leveling them off over the life of the debt. This will conserve cash and reduce debt payments an average of \$4 million in each of the next 3 years.
- Staff will seek board approval to defer even more capital improvement projects, which means we can delay future borrowing and its associated costs.
- We are continuing negotiations with the employees’ union that may lead to lower personnel costs.

On February 4, the board will consider a resolution that incorporates Plan B as follows.

- Authorize an 18% increase in water, wastewater, and recycled water rates for 2010, 15% in 2011, and 5% in 2012, 2013, and 2014.
- Implement only the first 3 years of rate increases.
- Require separate board action, a public hearing, and a showing of need before implementing rate increases for 2013 and 2014.
- Direct the general manager to recommend additional cuts in operating expenses without compromising safe, reliable services. Present the recommendations to the board by April 12 of this year. Any rate increases that have been authorized would be reduced in accordance with any additional expense reductions in any given year.
- Initiate a new practice that calls for public hearings before the district borrows in the future. This will give customers an opportunity to discuss the need for the borrowing, and it will give the district an opportunity to ask customers to support the borrowing—with any changes in rates fully explained and approved in advance.
- In coordination with a community-based Ratepayer Advisory Committee, conduct a cost of service study this year, using an independent expert well versed in accepted standards. The results and recommendations will be presented to the board before the end of the year.
- Establish a new internal financial control test to require that projected annual revenues will cover annual operating expenses and debt payments, even if the district receives no new hook-up revenues. This will prevent the district from becoming overly reliant on new hook-up fees in the future.
- Prepare a report that reconciles capital expenditures against bond proceeds, new hook-up revenues, rates, and other funding and present it to the board in 2010.

These directives will help guide EID financial management in the future. They are aimed at ensuring the district continues to deliver safe, reliable services in a financially responsible way.

The other side of this information sheet compares EID bills with other water and wastewater agencies in the region, discusses reasons for the proposed rate increases, and describes cost-cutting actions the district has achieved during the past two years.