



Summary of the September 1, 2010 Special EID Board Meeting

El Dorado Irrigation District — serving people, agriculture, businesses, and the environment in El Dorado County since 1925

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Board Adopts Advisory Panel's Recommended Principles to Guide the Cost-of-Services Study and Future Rate-Setting

**Board Also Seeks Changes to the LAFCo Municipal Services Review Process to
Save Customers and Taxpayers the Costs of an Unfunded State Mandate**

Placerville, CA . . . During a special meeting on September 1, the El Dorado Irrigation District's board of directors unanimously adopted a set of 12 guiding principles recommended by the district's Cost-of-Services Study Advisory Panel. The recommendations are attached to this news release. They represent the panel's first action before the board since the panel was officially convened in early August to advise the district on its cost-of-services study, now underway.

"These principles were drafted and revised throughout August," said EID general manager and panel facilitator Jim Abercrombie. "I'm pleased the panel achieved unanimity on 10 of the principles and a strong majority vote of 7 to 1 on two others. This is a very positive start to the to the panel's work."

The two principles that required a majority vote—principles 7 and 11—were the focus of much of the discussion during the board meeting. Principle 7 calls for the establishment of uniform rates within a service class that do not differentiate by area, within the class, or by pumped versus gravity water service.

"In adopting Principle 7, the board reaffirmed its commitment to a 'one district' approach in determining rates," Abercrombie said after the meeting. "There was lengthy debate on this subject a year and a half ago in early 2009, with all sides fully aired. Today's board decision solidified that approach."

Principle 11 calls for the reasonable allocation of property tax revenues between water and wastewater systems, allowing the district "flexibility in helping to cover debt service costs and avoid rate shock," Abercrombie told the board.

Consultant Greg Clumpner of HDR, the engineering firm that is conducting the cost-of-services study, said the adoption of guiding principles "provides a needed foundation for the work and helps to ensure the study will be finished on time." The target date for completion is early December.

Board members thanked the public members of panel for their voluntary commitment, noting that the task is complicated and time-consuming but extremely important to bring the cost-of-services study to a successful conclusion. The 10-member panel includes five individuals from different communities within the District's service area and five EID staff members. See brief biographies of the panel members attached to this news release.

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Resolution to ACWA: Pursue Legislation to Change the LAFCO Municipal Services Review Process

In opposition to unfunded state and federal mandates that have cost EID customers and county taxpayers millions of dollars over the years, the board adopted a resolution taking aim at one such requirement—a law calling for municipal services reviews by Local Agency Formation Commissions (LAFCOs) across the state.

“We want to improve an existing state law that imposes an unnecessary requirement on LAFCO and affects the district,” said board vice president Harry Norris, who introduced the resolution and is a special district representative on the El Dorado County LAFCO. “The law’s inflexible requirements cost both EID customers and county taxpayers money that could be better spent elsewhere.”

The resolution asks the Association of California Water Agencies (ACWA) to sponsor legislation that would give LAFCOs more discretion to determine whether and when to conduct state-required reviews of municipal services. Currently, state law requires LAFCOs to conduct reviews of municipal services prior to or in conjunction with “every action to establish or update a sphere of influence, which is at least every five years,” said Tom Cumpston, the district’s general counsel. “Even if nothing much changes in our sphere of influence during that time period, LAFCO still has to conduct a review. It costs time and money—around \$60,000 in LAFCO’s budget for the coming year, and LAFCO’s funding comes from every local government agency in the county.”

ACWA is a statewide organization of 450 public water agencies that provide 90 percent of all water delivered to California cities, farms, and businesses. ACWA may choose to sponsor legislation proposed by member agencies if the legislation is consistent with ACWA’s goals and objectives. “We think what we’re proposing today is in the best interests of not only EID and our county LAFCO, but also for local agencies and LAFCOs across the state,” Norris said.

The board directed staff to collaborate with other statewide local government associations and with El Dorado County LAFCO, which is already looking at how to improve the law. Legislative language is due to ACWA by September 10.

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For more information, contact Deanne Kloefer at 530-622-4513.

Brief Biographies of EID's 2010 Cost-of-Services Study Advisory Panel

Community-Based Members

Kim Beal, Cameron Park. Kim, a resident of El Dorado County since 1966, is Government Affairs Director for the Realtors Association in El Dorado County. She holds a BS in business and has worked in real estate for 32 years. Kim is President of the Governing Board for the El Dorado Business Alliance and a member of the Board of Directors for Marshall Medical. She earlier served as a member of EID's Facility Capacity Charges Advisory Committee.

Albert Hazbun, El Dorado Hills. Albert's long career includes more than 50 years of experience in managing the design and construction of heavy industrial and civil infrastructure projects on five continents. He introduced recycled water to the Serrano Project in El Dorado Hills and has served on several EID advisory committees related to water, wastewater, and recycled water. Albert is a graduate (engineering) of the American University in Beirut. He has lived in El Dorado County since 1987.

Tom Heflin, Camino. Tom, a life-time resident of El Dorado County, holds a PhD in Finance and Business Economics and is Professor Emeritus at Sacramento State University. He previously served on the county's Agricultural and Economic Development commissions and on state committees related to insurance rate-setting. Tom is currently the Supervisor District III representative on the county Planning Commission and runs a small business with his wife in Camino.

Doug Leisz, Placerville. A professional forester and UC Berkeley graduate, Doug rose to the rank of Associate Chief during his 32-year career with the U.S. Forest Service. He then formed a consulting business until 2008. He is Vice President of the county Agricultural Water Quality Management Corporation and is active in water issues such as the county's small hydro study and EID's Irrigation Management Services program. Doug manages a wine vineyard and tree farm that he established 26 years ago.

Greg Prada, Cameron Park. Greg formerly led financial turnarounds for two specialty health services companies, where he was the Chief Operating Officer, and a manufacturing division, where he was the Chief Financial Officer. He also led the initial public offering for a health services company with three business segments, where he was the Chief Executive Officer. Greg holds a BA in business from the University of Washington. He moved to El Dorado County from the Bay area in 2006.

EID Staff

Jim Abercrombie, Placerville. Jim, who facilitates the Cost-of-Services Study Advisory Panel, was chosen as EID's General Manager in 2009. His more than 30 years of management experience include 11 years as Amador Water Agency's General Manager and 11 years as PG&E's El Dorado District Manager—the youngest district manager in PG&E history at the time of his promotion. A registered civil engineer, Jim also earned an MBA from Santa Clara University's Leavey School of Business.

Mark Price, Rancho Murieta. Mark is the District's Finance Director and has worked at EID since 2005. His 30-year career as a certified public accountant includes positions as Assistant General Manager for Finance and Administration at Stockton East Water District and as Accounting Services Manager for a large sewer and surface water management district in the Portland, Oregon area. His early career, as a partner in a Sacramento accounting firm, included audits of special districts (water and sewer) and small cities. He has a BS in business administration with concentrations in accounting and information systems.

Deanne Kloepper, Placerville. Before joining EID as Communications Director in 2004, Deanne was a public information/communications strategist for a state public utilities commission and a national non-profit organization. She also managed her own business in Washington, DC for 11 years, where her clients ranged from private and non-profit enterprises to the Smithsonian Institution, Department of Agriculture, and National Drought Commission. She holds BA and MA degrees in history.

Dana Strahan, Garden Valley. Dana, EID's Water Operations Manager, holds state-issued T5 and D5 water operator certifications. This means he can operate or supervise the operation of any water treatment plant or water distribution system—regardless of capacity, size, or complexity—in California. During his 28-year career in public service, Dana has worked for the City of Orange, Placer County Water Agency, and the City of Folsom. He has an AA in business administration.

Elizabeth Wells, Placerville. A registered civil engineer with 13 years of engineering experience, Elizabeth has been Engineering Manager of EID's wastewater and recycled water systems since late 2004. She previously worked for a local engineering firm, where she designed water and wastewater infrastructure and treatment facilities and provided construction management services. Elizabeth is a board member of WaterReuse, a statewide association of recycled water interests, and she holds a BS in engineering from UC Davis.

Board-Adopted Principles for Guiding the Rate-Setting Process

Principle 1 – Establish rates in compliance with all applicable Federal, State, and local laws and regulations.

Discussion: Certain Federal, State, and local laws and regulations have an impact on processes involved in setting the District’s rate structure—most notably Proposition 218. It is imperative that the rate structure be established in compliance with these laws and regulations.

Advantages of the Principle: Clearly states the District’s intent to establish rates in compliance with applicable Federal, State, and local laws and regulations.

Disadvantages of the Principle: None.

Principle 2 – Establish rates that are fair and equitable within the limitations of reasonable and attainable data and the District’s administrative systems, personnel, and finances.

Policy Statement: The Board recognizes the need for reasonable cost allocation among commodities as well as the need to provide an easily understood rate structure for its customers. Rates should be generally perceived by the District’s customers as fair, reasonable, and equitable to all customers.

Discussion: This principle highlights the importance of the customer perception of fairness and equity to the Board, while also recognizing that it is not practical to promise absolute equity among all customers and customer classes.

Advantages of the Principle: The advantage of this principle is that it reinforces the Board’s priority of treating all customers fairly. It also underscores the importance of a more “District-wide” perception of fairness and equity as opposed to pacifying the “squeaky wheel.” Finally, it acknowledges the practical obstacles that prevent perfect equity.

Disadvantage of the Principle: This principle ultimately does not clearly define the terms “fair and equitable” and will still require the Board to apply its discretion and judgment.

Principle 3 – Attempt to make rates simple to understand for the public and reasonable to administer.

Policy Statement: Rates should be easily understood by customers and cost-efficient for the District to administer. At the same time, all rates must conform to any legal requirements placed upon the District.

Discussion: For fifteen years, the District’s policy orientation has been to simplify its rate structure and the process of administering it. This principle is consistent with those historical efforts. Customer education and clarity of customer bills should be considered part of this principle.

Advantages of the Principle: Creating rates that are easy for customers to understand will minimize rate-related customer service issues. If customers understand the basis for their bills, they will have a greater ability to comprehend their billing and conclude that it is fair. This principle is consistent with the District’s 2008 Board decision to adopt a District-wide rate structure.

Disadvantages of the Principle: There are tensions between “fairness and equity” and simplicity of the rate structure. Simplifying the rate structure does not always provide a maximum degree of fairness and equity. However, from the customer perspective, rates that are simple to understand may be more important than a higher degree of equity, as long as any resulting inequities are not viewed as “gross inequities.”

Principle 4 – Establish stable and predictable rates over time to the extent possible within the District’s overall financial plan.

Policy Statement: Rates should be stable and predictable over time which requires a balance between generating sufficient revenue for utility operations, funding capital improvements, and improving customer perception of the rates as fair and equitable.

Discussion: It is imperative for the District to establish rates that generate adequate revenues from year to year, regardless of weather and consumption characteristics. Large and unexpected year-to-year rate changes impose financial hardships on customers and promote customer perceptions of the District as arbitrary and mismanaged. This principle recognizes the need to establish an appropriate balance between minimizing large rate adjustments without discouraging annual smaller systematic rate adjustments.

Advantages of the Principle: The principle attempts to stabilize the cash flow of the District and, at the same time, improve customer perceptions of fair and equitable rates and management of the District.

Disadvantages of the Principle: It is difficult to define “stable” as this term has different meanings for different people. Customers may construe stable to mean no increases from year to year.

Principle 5 – Make rates cost-based to the extent possible.

Policy Statement: Rates should be cost-based to the extent possible, meaning that other rate-setting policies of the District and the financial impacts to customers must also be considered. Fundamentally, “cost-based” rates are rates that meet the District’s overall revenue requirements. From the customer perspective, “cost-based” can be defined as the fair and reasonable allocation of costs to customers based on the degree to which services to different groups of customers cause the District to incur costs.

Discussion: Cost-based rates are generally recognized as being the most fair and equitable. However, this principle again needs to strike a balance between establishing cost-based rates in an excessively detailed and confusing manner, and establishing overly simplified rates. The District should strive for rates that satisfy both the District revenue requirements and the customer’s perception of fairness and equity.

Advantages of this Principle: Striving for cost-based rates is an important element in achieving rates that will generally be perceived as fair and equitable and also meet the District’s financial needs. Although cost responsibility among classes of service is not essential to the financial stability of the District, it is important if customers are to perceive rates as fair and equitable, as well as a requirement of state law (i.e., Proposition 218).

Disadvantages of the Principle: A commitment to cost-based rates may imply different levels of refinement and detail in the District’s rates for various customer groups. Therefore, this principle could be misconstrued as requiring an excessively detailed and costly approach to establish rates.

Principle 6 – Set rates to promote efficient customer use.

Policy Statement: Rates should recognize the value of water and of sewer capacity as limited resources, and while the District’s rate structure should discourage unreasonable use, it should encourage efficient use of the resources.

Discussion: This principle is intended to recognize the limited resources of the District and the environment. In light of the State Water Plan (20 x 2020) and the California Urban Water Conservation Council’s Best Management Practice of collecting 70 percent of water rate revenue from consumptive rates (BMP #11), the District’s rates should encourage more efficient use of water. Similarly, the District’s sewer capacity and recycled water supplies are finite, and facility expansions to enhance those resources are very expensive. This principle is not intended to be applied so as to discourage reasonable uses of the resources. By attempting to price commodities roughly equal to their true costs, the District will be encouraging efficient use of its limited resources.

Advantages of the Principle: This principle recognizes the multiple uses of our natural resources and makes a positive statement to all customers and outside parties that the District encourages the efficient use of its resources.

Disadvantages of the Principle: This principle does not necessarily imply the need to adopt inverted (or tiered) block rates. But some customers and outside parties may believe that it requires the District to adopt inverted block rate structures for all classes of service. Some may also read this as a mandate for the District to consider water-budget based rates.

Principle 7 – Establish uniform rates within a service class; do not differentiate by area, within a service class, nor by pumped versus gravity water service.

Policy Statement: Rates for the District shall be uniform for all customers within a class of service and shall not be differentiated by service area or, in the case of water, by pumped versus gravity-delivered service.

Discussion: Establishing rates that are uniform for a class of service is the approach most commonly used by utilities across the United States. Utilities generally recognize that cost differences for service do exist within a customer class of service, but also recognize the advantages of a uniform rate structure. In that case, the policymakers are usually willing to accept some level of inherent inequities to gain the advantages and benefits derived from uniform rates by class of service.

Advantages of the Principle: A principle that has a uniform (i.e., the same) rate for all customers within a class of service is likely to be perceived by customers as fair and equitable. It will be more cost efficient for the District to administer the rate since no consideration is given to the location of a customer or whether water is pumped or delivered by gravity. It can also minimize dramatic rate differentials when areas need costly infrastructure improvements. The principle may also help to eliminate the perception that there are “two or more Districts” within the District.

Disadvantages of the Principle: This principle does not recognize the cost differences associated with serving different areas of the District. It is commonly accepted that all utility systems have cost differences associated with serving different customers in different areas of the systems. Any rate-setting principle that has a single, District-wide rate for a class of service recognizes, and is willing to accept, those cost differences because the benefits outweigh the disadvantages. Customers who believe rates should be individually defined to the greatest extent possible will likely object to this principle.

Principle 8 – Calculate water, sewer, and recycled water rates independently, without subsidies where practicable.

Policy Statement: Although some shared costs such as administrative overhead must be appropriately allocated among water, sewer, and recycled water; system facilities, operating costs, and debt service will be separately identified and allocated to each utility. There should be no subsidy of one utility by another.

Discussion: This principle recognizes that each utility has different customers and, therefore, subsidizing one utility by another would create inequities.

Advantages of the Principle: This approach holds most closely to Proposition 218 requirements that rates reasonably reflect the proportional costs of service to a particular property, and minimizes dissatisfaction by customers who believe their rates are subsidizing other customers or that they are paying for benefits they are not receiving.

Disadvantages of the Principle: The disadvantage of this principle is that it does not allow for the possibility of allocating costs in a manner that may result in a win-win outcome for all customers.

Principle 9 – Establish agricultural irrigation rates that recognize agriculture’s role in the District’s formation and development, the quality of water required to serve these customers, and the level of service provided.

Policy Statement: Rates for agricultural irrigation must recognize the importance of historical contribution that the agricultural customer class has provided to existing and future customers. The District will consider water quality and levels of service in distinguishing agricultural rates compared to M&I rates.

Discussion: From the 1850’s to the 1970’s, agricultural water needs played a major role in the development and acquisition of, and funding for, water rights through Project 184, Weber Dam, Sly Park Reservoir, and other diversions and facilities. The agricultural irrigation customers do not require either the level of high-quality water treatment or the level of service demanded by municipal and industrial customers. Many agricultural customers have been provided treated water as a cost savings to the District in lieu of building dual treated water and raw water pipelines when converting open ditches to pipeline as a water conservation

measure. The District should not allocate costs to agricultural customers to provide high water quality and levels of service that were necessitated by its municipal and industrial customers.

Advantages of the Principle: Acknowledging that these issues impact the cost allocation methodology, customers will generally perceive these rates as fair and equitable.

Disadvantages of the Principle: Some customers may not agree with the fairness, equity, or legality of acknowledging these issues.

Principle 10 – Establish recycled water rates that encourage efficient use and recognize the resource benefits of reuse.

Policy Statement: Rates for water reuse shall be priced at a level that promotes the use of recycled water but is tiered to ensure efficient use of the resources.

Discussion: Water reuse is a valuable benefit and component of the District's water supply. Any principle on the pricing of water reuse must recognize three important issues: (1) The District's customers should not pay a base rate for recycled water that is higher than the base rate for potable water. (2) Reuse water is lower quality than potable water, and pricing it at or above potable water would not reflect the difference in quality. (3) Because of the benefits of water reuse, the District should encourage reuse water for its customers as well as the efficient use of this resource.

Advantages of the Principle: The major advantage of this Principle is that it recognizes water reuse as a valuable water resource to the District. It attempts to price the commodity recognizing differences in quality, the financial benefits water reuse provide to District water and sewer customers, and the advantages of encouraging additional but efficient use.

Disadvantages of the Principle: The major disadvantage of the principle is that it may not collect the full costs of water reuse.

Principle 11 – Allocate property tax revenues reasonably among commodities.

Policy Statement: Allocate all property tax revenues received to support EID operations across the board. In this way the tax income will support all program efforts in direct proportion to the total District program needs. The specific allocation will be decided during the budget process and final adjustment made at the audit review and approval.

Discussion: The District has reasonably allocated the property tax revenue between water and wastewater commodities based on the number of accounts the District services but maintains a degree of flexibility in order to meet broad District financial objectives. In addition, the District has used these tax revenues (which the District's financial advisors and underwriters have classified as miscellaneous revenue) to ensure that each enterprise fund meets its financial goals and debt coverage tests.

Advantages of the Principle: This principle benefits our customers by helping each enterprise fund meet its debt coverage test, thereby minimizing debt service costs and rate volatility.

Disadvantages of the Principle: This principle does not mathematically allocate tax revenues to enterprise funds based on the dollars paid by and the number and type of services provided to each taxpayer.

Principle 12 – Consider financial tests, such as debt service coverage, in all District financial planning and rate adjustments.

Policy Statement: The District is legally obligated to meet certain financial tests specified in the documents resulting from the issuing revenue bonds. These obligations need to be considered and reflected in financial plans and future rate increases.

Discussion: While these requirements are intended to ensure bond holders that the District will have sufficient revenue to repay bond holders, they are also beneficial in that they force the District to maintain adequate reserves and meet annual revenue requirements, which contributes to the overall financial health of the District.

Advantages of the Principle: This principle can help ease political pressure not to increase rates except in the most dire of circumstances. Meeting the coverage ratios specified in bond documents can help the District avoid falling into disrepair because it provides a specific means for the District to adhere to its current legal obligations of maintaining the general financial health of the District.

Disadvantages of the Principle: This principle is unnecessary since the District is already legally obligated to maintain its debt service ratios.