



EL DORADO IRRIGATION DISTRICT **NEWS RELEASE**

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FOR IMMEDIATE RELEASE

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BOARD GIVES STAFF DIRECTION ON COST OF SERVICES STUDY MODEL

Public Outreach Meetings Scheduled for October 24 and 26

Placerville, Calif. — During its October 11, 2011, meeting, the El Dorado Irrigation (EID) Board of Directors again considered various components of the District's recently completed Cost of Services (COS) Study model. The Board selected a preferred cost recovery allocation methodology and the method for integrating Domestic Irrigation customers into other rate classes, and considered the El Dorado County Office of Education's proposal to support the Recreational Turf rate for schools with a direct allocation of property tax revenues. District staff will now begin holding public outreach meetings to solicit input from customers and other interested parties, before bringing the decisions back to the Board for a final vote later this year.

The COS Study was directed by the EID Board in February 2010 to ensure that the District's cost allocations and rate schedule are fair and equitable among the water, wastewater, and recycled water commodities and compliant with Proposition 218. The District initiated the COS Study in June 2010 with a 10-member advisory committee consisting of five members of the community (Kim Beal, Albert Hazbun, Tom Heflin, Doug Leisz and Greg Prada) and five District staff. Rate consultant Greg Clumpner, of HDR, led the committee.

At the Board's request, due to the complexity of the information contained in the District's recently completed COS Study, EID General Manager Jim Abercrombie brought back for a third Board meeting a comparative summary of two alternative methodologies for cost recovery – the 50-50 and the 30-70 methods. The two alternatives had also been presented at the September 26 Board meeting. His presentation highlighted the pros and cons of each alternative.

50-50 Cost Recovery Allocation Methodology Selected

After a lengthy discussion about potential customer impacts and hearing from many in the public, the Board voted 4-1 to accept the COS advisory committee's recommendation to recover costs by collecting 50 percent of revenue from fixed charges and 50 percent of revenue from variable commodity charges for water, wastewater and recycled water, returning it to the cost recovery methodology used by the District prior to 2008. In 2008, the District made a change and began collecting 30 percent of revenue from fixed charges and 70 percent of revenue from variable commodity charges for water, wastewater and recycled water in order to meet certain regulatory requirements. With this new recommendation, the District will go back to a tried and true methodology used for years for calculating rates. Unfortunately, customers who are very low water users will see the largest rate increases under the 50-50 scenario, at a little over \$10.00 per month. "The 50-50 cost recovery method creates a more reliable, less volatile revenue stream that is not heavily influenced by wet or dry years. Since the last two years have been pretty wet, this change will help stabilize the meeting of our debt service coverage requirements," said Jim Abercrombie, EID General Manager. "It will also improve financial forecasting, as it allows us to collect the majority of our fixed costs so we don't have to rely on facility capacity charges (FCCs or hookup fees)."

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EID Board member George Osborne expressed concern about the 50-50 method. “I disagree with this decision and would like to see the 30-70 remain because a lot of people in my division have small lots, are very low water users and are retirees on fixed income.” Harry Norris, EID Board President, agreed with the decision to move to a 50-50 method and said that the 30-70 method has created a situation where there is too much variability in cash flow. “I think that we need to move forward with selecting some preferred choices today but we must take them to the public. If we need to modify those decisions once we hear from the public, we can do so at that time,” said Norris.

Proposed water and wastewater rate changes, if adopted, under the 50-50 methodology are as follows: Single Family Residential low-volume water and wastewater users currently pay a total of \$140.19 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$147.20. The proposed 50-50 rate would be \$155.12, a bi-monthly increase of \$7.93 (or \$3.96 per month). Single Family Residential medium-volume water and wastewater users currently pay \$199.62 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$209.60. The proposed 50-50 rate would be \$218.60, a bi-monthly increase of \$9.00 (or \$4.50 per month). Single Family Residential high-volume water and wastewater users currently pay \$330.69 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$347.22. The proposed 50-50 rate would be \$356.48, a bi-monthly increase \$9.26 (or \$4.63 per month).

Proposed wastewater rate changes, if adopted, under the 50-50 methodology are as follows: Single Family Residential low-volume wastewater users currently pay \$100.51 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$105.54. The proposed 50-50 rate would be \$93.45, a bi-monthly decrease of \$12.09 (or \$6.05 per month). Single Family Residential medium-volume wastewater users currently pay \$129.49 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$135.97. The proposed 50-50 rate would be \$128.64, a bi-monthly decrease of \$7.33 (or \$3.66 per month). Single Family Residential high-volume wastewater users currently pay \$178.76 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$187.70. The proposed 50-50 rate would be \$188.48, a bi-monthly increase of \$0.78 cents (or \$0.39 cents per month).

Proposed water rate changes, if adopted, under the 50-50 methodology are as follows: Single Family Residential low-volume water users currently pay \$39.67 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$41.66. The proposed 50-50 rate would be \$61.68, a \$20.02 bi-monthly increase (or \$10.01 per month). Single Family Residential medium-volume water users currently pay \$70.13 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$73.63. The proposed 50-50 rate would be \$89.95, a \$16.32 bi-monthly increase (or \$8.16 per month). Single Family Residential high-volume water users currently pay \$151.93 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$159.53. The 50-50 rate would be \$168.01, an \$8.48 bi-monthly increase (or \$4.24 per month).

Proposed dual-plumbed (water, wastewater, and recycled water) rate changes, if adopted, under the 50-50 methodology are as follows: Single Family Residential low-volume dual-plumbed users currently pay a total of \$144.34 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$151.56. The proposed 50-50 rate would be \$156.60, a bi-monthly increase of \$5.04 (or \$2.52 per month). Single Family Residential medium-volume dual-plumbed users currently pay \$232.86 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$244.50. The proposed 50-50 rate would be \$242.50, a bi-monthly decrease of \$2.00 (or \$1.00 per month). Single Family Residential high-volume dual-plumbed users currently pay \$496.89 every two months, with a previously adopted increase to go into effect in January 2012, putting it at \$521.73. The proposed 50-50 rate would be \$619.59, a bi-monthly increase \$97.86 (or \$48.93 per month).

“The District, like other public utilities, has been facing rising costs to maintain its infrastructure, especially for projects that are needed to ensure safety and reliability of the District’s systems and meet mandated regulatory requirements,” said Jim Abercrombie, EID General Manager.

Kim Beal, Greg Prada and Tom Heflin, members of the COS Study advisory committee who attended the meeting, all expressed support for the 50-50 methodology. Kim Beal, a local real estate professional and business leader, said “50-50 will make it easier to sell property to a buyer as it shows the clear costs that the buyer would pay for services.” Greg Prada, healthcare consultant, supported the 50-50 and the allocation method. “50-50 would allow EID to cover the overhead costs,” said Prada. Tom Heflin, finance and business economics professor emeritus at Sacramento State University and local farmer/business owner stated “I spent 35 years teaching cash flow management and from a financial standpoint, the 50-50 is truly the strongest way to go. Because of the variability in cash flow, it makes sense.” He commented that he was concerned about the impact on elderly and low-income people and wondered if a phased-in approach to implementation could work.

Domestic Irrigation Customer Class to Be Phased Out in 2013

In order to comply with Proposition 218 requirements, the Board voted 4-1 to eliminate the Domestic Irrigation customer class effective January of 2013. This action has been taken because the customer classification does not meet Proposition 218 criteria since it is not based upon the District’s Cost of Services principles, nor does it allow new service applications. The Board discussed at length the *Bighorn-Desert View Water Agency v. Virgil, et. al*, case in which the California Supreme Court ruled in 2006 that water rates are subject to Proposition 218.

When the Board discussed whether courts would consider a three-year phase out period for the Domestic Irrigation customers to be a reasonable approach to Proposition 218 compliance, EID’s General Counsel Tom Cumpston commented, “We don’t have case law on this. We are bound by what is considered reasonable by the courts. It depends on the evidence and the judge’s view of what is reasonable. The longer the transition period, the harder it is to justify. Based on the information we have now, it points to a shorter rather than a longer period.” Based upon Cumpston’s advice, Board members opted for a 13-month phase-out period rather than a three-year phase-out period for Domestic Irrigation customers.

Current Domestic Irrigation customers will have the opportunity to immediately move into the Small Farm customer classification if they meet the qualifications set forth by the El Dorado County Agriculture Department and are certified as a small farm. Those unable to qualify for this Small Farm certification will be automatically moved from Domestic Irrigation into the Single Family Residential customer class on January 1, 2013. “I am not wedded to the Domestic Irrigation customer classification but I am concerned that those on it have enough time to switch to the Small Farm rate if they qualify,” said Board Director John Fraser. “I am requesting that staff provide workshops for those affected by this classification change,” said Board Director George Osborne. Abercrombie confirmed that the District will, in fact, provide more information to Domestic Irrigation customers in the near future and will hold a series of workshops to help them understand the qualifications for inclusion in the Small Farm customer classification and the District’s water-use efficiency services. Criteria for the Small Farm customer classification may be found on the District’s website at www.eid.org.

Recreational Turf Rate Class Decision to Be Continued

A proposal from the El Dorado County Office of Education was received by the Board, asking the Board to redirect property tax allocation monies to support schools (and community service districts) to mitigate the rate increases proposed in the COS Study. The proposal was widely discussed, with several members of the public providing comment. Given the complexities and customer equity issues associated with the proposal and the need to study the issue further, the Board took no action and will continue to review the information and consider any modifications to the Recreational Turf rate class at a later date. The COS Study shows that the Recreation Turf rate should be the same as Single Family Residential water rates. Currently, the existing Recreational Turf rate is 50 percent below the Single Family residential rate for water.

EID has set aside \$100,000 in grant funds to provide assistance to schools, community service districts, and other Recreational Turf customers with water conservation devices to mitigate the impact of future rate increases.

Public Outreach Meetings Scheduled for October 24 and 26

Public outreach meetings to present the Cost of Services Study information will be held on Monday, October 24, at 6:30 p.m. at the Cameron Park Community Services District and on Wednesday, October 26, at 6:30 p.m. at the Pollock Pines- Camino Community Center. All information pertaining to the Cost of Services Study may be found on the District's website at www.eid.org.

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EID is a public agency dedicated to providing high quality water, wastewater treatment, recycled water, hydropower, and recreation services in an environmentally and fiscally responsible manner.