



Message from the General Manager

My Two-Year Anniversary

A challenging and rewarding time during significant financial strain

Jim Abercrombie

I want to take this opportunity on my two-year anniversary to let you know how much I have truly enjoyed my time as your General Manager. My message below reflects back to when I was a ratepayer in the 1990s reading about the trials and tribulations facing EID in fixing its infrastructure problems and my many challenging experiences over the past two years.

Regulatory Challenges

In the 1990s, EID faced major challenges with regulatory compliance issues. A past Board forecasted that significant capital expenditures were needed to comply with the 1998 State Department of Public Health's orders requiring the lining and covering of drinking water reservoirs, new wastewater treatment requirements mandated by more stringent Regional Water Quality Control Board (RWQCB) regulations, as well as the need to address deferred maintenance issues. The Board also forecasted in 1999 that between \$176 and \$300 million needed to be spent resolving these issues, not including the refurbishing of the Project 184 flume structures acquired in 1999.

As I reviewed past financial plans I noticed that in 1999, EID estimated that for single-family sewer rates, the RWQCB's new wastewater regulations would "increase the existing user rate 35% to \$74 per month." A report further states "the District could face major costs that could be imposed upon already heavily-burdened District sewer customers." Today, our single family sewer rate is roughly \$65 per month.

Infrastructure Upgrades

As a proud El Dorado County resident and EID rate payer of 23 years, I believe we all knew back then that much of EID's infrastructure needed fixing or replacing. I recall reading the articles in the Mountain Democrat newspaper that highlighted the need to fix the sewer system, cover the drinking water reservoirs, and replace other deteriorated assets.

Well, this needed capital work was finally undertaken in the 2000s and, yes, a lot of money was borrowed and significant capital expenditures were made, along the lines of what was forecasted in the 1990s. About half of the \$300 million in capital expenditures were for unfunded state and federal regulatory mandates. However, despite those forecasts and the

planned capital work, the water and wastewater rates were not adjusted to help pay for these projects over the next five years (1999 – 2004).

Debt Management

In the mid-2000s, during the height of the housing bubble, EID used new connection fee revenues, also known as FCCs, to fund both construction and a significant portion of the debt in order to minimize the immediate rate increases to customers. At that time, it would have been difficult to justify large rate increases when EID was receiving large amounts of FCC revenues.



The recently completed sewer line rehabilitation along Coach Lane in Cameron Park greatly increases the reliability of the system.

With the sudden collapse of the housing market, EID needed to return to the industry practice that existing customers pay for debt incurred on the capital projects that directly benefited them. And as forecasted in the 1990s, most of the debt that was incurred in the 2000s funded projects that benefited existing customers by replacing deteriorated assets and complying with the regulators' water quality mandates. There were some projects that also addressed capacity limitations, which bond proceeds were also used for in addition to collected FCC reserves.

Revenue Shortfall and New Strategies

Over my last two years, EID has taken a three-pronged approach in dealing with the unexpected FCC revenue shortfall and increased debt costs. First, we have increased non-rate revenue by renegotiating our hydroelectric contract. Second, we have lowered costs by making significant cuts to operating costs, restructuring some debt payments, and deferring capital improvement projects. And third, we have increased rates to cover the rest of the debt service costs associated with capital reinvestment.

The first of the three-pronged approach was completed by renegotiating the power sales contract to increase non-rate revenue. By doing so we reduced the need to collect rate revenue to cover costs. EID was successful in more than doubling our hydroelectric revenues, an increase of about \$5 million per year.

The second prong of our three-pronged approach was cost reduction, and we have done a lot of it. Here are some of the biggest items. EID renegotiated its contract with the employee association in 2010, downgrading and tightening the retirement benefits for new hires. EID also reduced staff by more than 30%, rolling our staffing back to 1999 levels, even though the number of services the District provides has grown to over 21,000 (50%) since 1999. Earlier this year, we implemented a furlough program that requires every employee, from the General Manager on down, to take 40

Questions and Answers: Cost of Services Study

From left: EID Communications and Community Relations Director Mary Lynn Carlton, Finance Director Mark Price, and General Manager Jim Abercrombie



What is a cost of services (COS) study and why was it done? It is a study of EID’s water, wastewater, and recycled water rates. The COS study addresses a number of key factors in a manner that ensures revenue sufficiency, adequate funding of reserves, and equity in rates among all system customers. In 2010, when we found it necessary to implement a rate increase, we made a commitment to our customers, at their request, that we would conduct this study and we have now fulfilled this commitment. Results of the study will be reviewed with the public in the fall of 2011.

How was the study conducted and who was involved? A community-based ratepayer advisory committee, along with EID staff and Greg Clumpner, a senior financial manager and rate economist at HDR Consulting who is well versed in accepted standards, was convened and completed the study. Clumpner has 26 years of experience in water, sewer and recycled water projects and rate studies, and in guiding water districts through the complex Proposition 218 process.

What is Proposition 218 and what does it have to do with a COS study? Proposition 218, officially titled the “Right to Vote on Taxes Act,” was approved by California voters on November 5, 1996. It’s one of a series of voter-approved initiatives in California, stretching back to Proposition 13 in 1978, which restricts the authority of government agencies to raise and spend local revenue without the public’s consent. Proposition 218 amended the California Constitution to create complex procedural requirements and substantive limitations for, among other things, increases in water and sewer rates. With Mr. Clumpner’s guidance, the committee has been very careful to ensure that the COS study fully complies with Proposition 218’s requirements.

What are benefits of conducting such a study? The benefits are many, but first and foremost, it ensures fairness and equity among customer rate classes. It also ensures that EID has appropriate revenue stability to cover the District’s operational costs. A model, or methodology, was developed as a part of the study and adherence to this model will allow for the District to ensure that the rates will remain properly aligned in the future.

What did the COS study results show? The study shows that the single family residential wastewater rates are adequate for 2012, and small increases are needed in 2013 and beyond. The single family residential water rates may require an additional rate increase in addition to the previously adopted five percent increase in 2012 and beyond. The proposed rates will need to be modified based upon the 2012 budget and Capital Improvement Plan (CIP) expected to be adopted by the Board in late fall 2011.

How and when will these results be implemented, if it is decided to accept the committee’s recommendations? Prior to making any final decisions regarding the COS study results, the EID Board of Directors will approve the 2012 operational budget and the CIP. Two public outreach meetings will then be held to obtain public feedback. Once the meetings are concluded and the Board has obtained feedback, they will then consider the adoption of the model. Once the model is approved, the Board will then consider the proposed rate changes, ensuring that all provisions of the Proposition 218 process are followed, which includes: a) matching our budgets and CIP and integrate them into the COS study model, b) issuing written notices of the proposed rate adjustments to all customers in late fall 2011, and c) implementing the new rate structure early in 2012.

How does this possible rate change affect the rate changes adopted in 2010? If adopted, the proposed rates would supersede the previously adopted 2012 rates.

How can I learn more about what the COS study and the Committee’s recommendations? You can attend the upcoming community workshops and look at our Cost of Services study page on our website at www.eid.org. On that page you will find useful information about the COS study process and have access to the presentations and reports made to the Board of Directors on this topic.

“The benefits [of conducting a cost of services study] are many, but first and foremost, it ensures fairness and equity among customer rate classes.”

— Jim Abercrombie

GENERAL MANAGER, *continued from page 2*

hours of unpaid leave between July 2 and the end of the year. The furloughs will generate a quarter-million dollars in savings and could increase EID's debt coverage from 1.25 to 1.27. Maintaining at least a 1.25 debt service ratio is a requirement of the debt covenants to EID's bondholders.

The bottom line on cost reduction is on page seven of EID's 2010 Comprehensive Annual Financial Report, which you can read on our website. It shows that we've reduced annual operating expenses by nearly 15%, from \$46.3 million in 2008 to \$40.4 million in 2010, representing a \$6 million reduction. Staff has been directed to prepare a 2012 budget that continues this annual \$6 million reduction.

The third prong of our three-pronged approach was after significantly cutting costs and increasing non-rate revenue, we allocated the appropriate debt costs to existing customers through your water, sewer, and recycled water rates. The industry practice—and the fair thing to do—is for existing customers to pay for the portion of debt incurred on capital projects that directly benefit them.

Cost of Services Study

The history of EID's regulatory compliance challenges, infrastructure replacement, capital spending and debt issues in the 1990s and 2000s brings us to the subject of the recently completed cost of services (COS) study. During the rate-increase public workshops in 2010, our customers called for a

financial study to ensure that costs are fairly allocated between commodities and customer classes, so that everyone pays their fair share, and no one subsidizes anyone else. We recently completed that study, which included the development of a detailed cost of service model. This model allocates EID's operating and debt costs equitably among water, wastewater and recycled water services, based on reasonable and fully disclosed cost-allocation methodologies. Workshops will be held this fall to share information and receive public comment about our COS study. Watch for announcements on dates and details.

Better Internal Financial Controls

I've also implemented a reform to EID's internal financial controls to protect against over-reliance on FCC revenues when the housing market comes back in the future. We now require EID's projected annual revenues to cover 100% of the annual operating expenses plus debt payments, without relying on a penny of FCC revenues. When FCC revenues pick up in the future, this control will position EID to reduce its borrowing, fund more capital projects on a pay-as-you-go basis, and prepay existing debt.

In closing, I look forward to sharing with you the results of the COS study over the next few months, and also to implementing its conclusions, in order to provide the financial stability and equitable rates that all of our customers rightly deserve.



Adjust Irrigation Schedules With the Cooling Weather

It's that time of year again: the weather begins to cool off in September and October, and your irrigation needs reduce.

Water loss from evapotranspiration (ET) for the month of September is approximately two-thirds that of July. Please remember to adjust your landscape irrigation accordingly!

For more information and tips, visit the EID water efficiency pages and click on "landscape."

Comparing Costs of Your High Quality Tap Water



The Best Deal Around

On average, a gallon of California tap water costs two-tenths of a cent. When compared with the cost of other products we use every day, tap water is clearly one of the best deals around.

A Gallon of TAP WATER
\$0.002

A GALLON OF



\$45.00

A GALLON OF



\$16.00

A GALLON OF



\$11.35

A GALLON OF



\$3.52

A GALLON OF



\$2.49

(*Prices based on California averages.)

2011 REGULAR BOARD MEETINGS

January	February	March	April	May	June	July	August	September	October	November	December
10	Cancelled	14	11	—	13	—	8	—	11 (T)	14	12
24	28	28	25	23	27	25	22	26	24	—	—

Board meetings generally occur on the second and fourth Monday of each month. The first October meeting takes place on a Tuesday.

The Waterfront is written and designed by EID's Communications and Community Relations Department.