CALIFORNIA'S OLDEST NEWSPAPER - EST. 1851
Mountain Democrat

Current: 90 °F
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Sunrise: 5:42 am Sunset: 8:32 pm

Spring Golf Special AS LOW AS $45

Limit bond uses
February 25th, 2010

The last time the El Dorado Irrigation District approved a bond issue was Oct. 27, 2008, for $133 million, which it sold in early 2009. About that time the district had cut out eight management positions and was about to lay off 31 employees. The management shuffle brought a new person in charge of the Finance Department, someone more conservative, who recommended fixed rate bonds rather than the variable rate bonds.

We had previously expressed doubts about bonds whose rates were reset weekly and found it more reassuring that EID was going to do a strictly fixed rate issuance. The variable rate bonds had come with names like VRDO, variable rate debt obligation, and ARS, auction rate securities. The variable rate debt instruments spiked in March 2008 when an insurer for these debts pretty much went down the financial toilet and then again in the fall of 2008 when the national credit market totally seized up as big banks and Wall Street firms found themselves stuck with unsalable mortgage backed bonds and related derivatives with a large subprime component.

While EID wisely steered clear of the variable rate debt financing, we were somewhat taken aback by the uses to which the bonds issue was put. Out of the $133 million that was sold to finance capital improvement projects, $48 million went to reimburse the district for staff time spent on capital improvement projects.

Now that EID has approved its new rate increases — 18 percent immediately, 15 percent in 2011 and 5 percent in 2012, 2013 and 2014 — we would like to see a new approach to paying for engineering and environmental compliance staff time on capital improvement projects. Those are operational expenses that should not be paid with debt financing. The rate increases should be sufficient to cover the expense of staff work and inspection services on capital improvement projects. At the most the district can create a capital improvement planning pool that will cover these expenses. The proceeds from debt financing should all go to actual construction, equipment replacement and materials in the ground. The bond funds will go farther and build more assets if operational costs are not loaded onto them.

New EID Manager Jim Abercrombie has some good ideas for additional ways to finance capital improvement projects, such as Mello-Roos subdivision districts and putting hookup fees into a capital improvement sinking fund to pay cash for smaller CIP projects. We would also suggest looking at assessment districts for outlying service areas such as Strawberry, Outingdale and perhaps sewer service for Camino Heights.

The district still remains a capital intensive operation with an historical book value of close to $1 billion. It will continue to need debt financing to pay for replacement of aging pipelines and pumping stations and to keep pace with new regulatory requirements on the treatment of water and wastewater.

Contrary to the hue and cry of a few at the Feb. 4 rate hearing, paying cash for what has added up to more than $90 million to fix the powerhouse and flume system after the Jan. 1, 1997, flood and keep ahead of the deterioration of a system first built in 1857 that supplies one-third of the district's water — cash is not a viable option. The rate hikes to pay for that and every other capital replacement project would make the astronomical rate hikes by the city of Placerville look like peanuts.

Placerville, in fact, needs to rethink its cash approach. The rate hikes are absolutely too much. The city should consider an assessment district that would put a sewer and water bond on the city property tax rolls.

Just don't charge the residents for city engineering time.