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Viewpoints: El Dorado water utility mismanaged

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The El Dorado Irrigation District, a utility that serves 100,000 customers, finds itself facing a storm of protest over a proposed 35 percent rate hike. Yet the financial fiasco that district now confronts was not only foreseeable, it was predicted.

In October 2003, the present board placed EID on this collision course when it proceeded to take out $166 million in mostly variable-rate debt to finance an extravagant five-year capital improvement program.

Just before the vote, former director Richard Akin spoke these prophetic words: "A dark cloud of debt will burden EID ratepayers for generations to come." He then resigned from the board in protest.

Flush with cash and under the pretext of building a world-class utility, EID proceeded to spend like there was no tomorrow, according to documents obtained through an open records request. The full details of the frivolous spending are too great to list here, but they include:

• Expenses to water conferences for friends of board members.

• Four-figure restaurant bills.

• Contracts to friends of board members, such as $10,000 to research how other water districts get their legal advice.

• Two infomercials (costing approximately $50,000) that aired late in the night to let insomniacs know what a world-class utility EID is.

Beyond the borrowing and the extravagant spending, the major contributor to this fiasco was the dramatic increase in labor costs. First, there was wholesale upgrade in salaries based on a faulty salary survey and as payback for support of the employee association in the election of the present board.

If that was not enough of a thank-you, the board then raised the CalPERS retirement benefit formula from 2.0 to 2.7 at 55, retroactive for all years of EID service.

The consequences of this action were the topic of a Jan. 15 editorial in The Bee ("A pension perk that doesn't wash") which reported a nearly fivefold increase in pension costs to EID, to $3.03 million.

If that wasn't enough, the board and a previous general manager proceeded to greatly expand the staff by 70 percent – from 180 to 305 employees – in less than five years, according to the district's 2008 financial report. Collectively, these actions tripled labor costs, from $11 million to $34 million in just six years. Labor costs now account for nearly three-fourths of the operating budget.

The cracks in the dam began showing in late 2007 when Auction Rate Securities, one of the debt instruments issued by EID, began commanding high interest rates. In time, EID was able to convert this debt to another type of debt instrument, but the damage had been done.

As the recession and collapse of the housing market hit home in 2009, EID, for reasons that defy logic, issued another $133 million in new debt at an average interest rate of 5.94 percent to finance a five-year capital improvement program. Many of the high-ticket items in this list were to support residential growth and have since been put on hold. This new debt issuance raised the district's outstanding debt to the staggering level of nearly $400 million.

Why would Wall Street lend such large sums to a small utility? Simple. The district pledged the repayment of debt with rate hikes, if necessary, and promised to keep revenues at 125 percent of the debt service, even if it required raising rates.

The premise behind all this borrowing and spending was that revenues would continue to grow from EID's high water and wastewater rates, tax revenues and the sale of water and sewer connections. But property tax revenues declined and real-estate developers stopped buying water connections. EID's board gambled, and we the ratepayers lost.

Up until this point, the house of cards had been maintained in large part by rate increases. In October 2003, the board voted to make an automatic increase in rates every year on Jan. 1, for six years through 2009. In comparison, in the 10 years preceding the present board, water rates were increased only once for 25 percent.

In addition, there have been additional surcharges to offset loss of property tax revenues taken by the state and for the reservoir cover project. As a result, an average summer water bill in El Dorado Hills has increased by 47 percent under this board.

The increases have not been limited to rates. The cost of a residential water connection has increased from $6,766 in 2001 to $16,640. Other fees have also been dramatically increased. EID's options are to cut costs or raise rates. It has chosen to raise rates. The ratepayers did not create this problem, so the board should start by eliminating the extravagances, such as health club memberships and health benefits. They should then look at those who have benefited by their mismanagement. Any further rate increases are unjustifiable. The ratepayers should submit their Proposition 218 protest letter.

As former directors of EID, we are asking the Legislature's Joint Audit Committee to undertake a review of EID finances. Ratepayers can help support this request by writing or calling their lawmakers.

This commentary was written by former EID board member Al Vargas (1999-03) and was co-signed by former EID board members Eugene Larson (1969-95), Richard Akin (1994-03), Howard Kastan (1991-93 and 1997-2001), William Bergmeister (1989-91 and 1999-01) and Raymond Larson (1995-99).