

EID board ponders unknown legal territory if rate increase is rejected

clocke@sacbee.com

Published Monday, Jan. 11, 2010

The El Dorado Irrigation District could find itself in uncharted territory if a majority of ratepayers rejects a proposed rate increase.

If the district were unable to raise rates or cut costs sufficiently to meet the required debt coverage on \$390 million in bonds, a court might have to decide whether the contractual obligation to bondholders trumps California's Proposition 218, according to Douglas Brown, the district's bond counsel.

"That might present an issue that has not yet been faced by the courts," Brown said Monday during a board discussion of legal and practical consequences of violating the bond covenants.

Beginning with a 35 percent water and sewer rate increase this year, the board proposes annual rate hikes through 2014, that opponents say would result in an 80 percent compounded increase. District officials say the increase is necessary to make up for the decline in revenue from new hookups resulting from the near standstill in housing construction.

A grass-roots campaign has been launched in opposition to the rate hikes, and under Proposition 218, the "Right to Vote on Taxes Act," approved by California voters in 1996, public agencies must reject an increase if written protests are submitted by a majority of landowners.

If the district does not demonstrate that it can provide the required debt coverage, a trustee representing bondholders could demand that the district raise rates or reduce expenses. If the district failed to remedy the situation, a court could appoint someone to take control of the district's bank accounts, Brown said.

Failure to comply with the bond covenants also would likely result in higher interest rates for the district's current variable-rate bonds, and make it difficult and more expensive to obtain future financing for capital projects, he said.

The board adopted a \$43 million operating budget in December, calling for an additional \$1 million in spending cuts, many of which must be negotiated with unions. Without a rate increase, board members said they would have to cut expenses by \$13 million. Such cuts would make it difficult to maintain water quality standards, and regulatory violations could result in stiff fines, board members said.

The district will hold community workshops on the proposed rate increases from 6 to 8 p.m. Wednesday (JAN. 13) at the El Dorado Hills Fire Department Building, 1040 Wilson Blvd., El Dorado Hills, and from 6 to 8 p.m. Jan. 18 at the Pollock Pines Community Center, 2675 Sanders Drive, Pollock Pines. The hearing to consider rate adoption is scheduled for 6 p.m. Feb. 4 in the El Dorado County Board of Supervisors meeting room, 330 Fair Lane, Building A, Placerville.