



For Immediate Release
Monday, January 11, 2010

EID Board Briefed on Details of Bond Covenants **Failure to Comply with Legal Requirements Could Lead to Lawsuits** **and Increased Costs to the District**

Placerville, CA . . . Holders of El Dorado Irrigation District bonds have the right and power to force a rate increase or drastic cuts in the district's operating budget if the district fails to meet its legal obligations to the bondholders. That was the pointed message delivered to the district's board of directors during a meeting today of the board's standing committee on finances, rates, and charges.

"The district is contractually required to make sure the estimated net revenues in its budgets exceed debt service costs by 25 percent," said Doug Brown, a senior partner at Stradling Yocca Carlson & Rauth, the district's bond counsel since 2003. "There are several consequences if the district fails to do this. Legally, the trustees for the bondholders can send a notice of default and insist on a remedy within 30 days. The trustees could also demand immediate payment of all of the district's outstanding debt and accrued interest. And they, as well as the district's credit guarantors, could sue, seek an injunction, and ask the courts to appoint an outside party to take over financial management of the district." Brown said he does not know of a case where trustees for bondholders have taken these actions, but he noted it is clearly within their power to do so.

Brown also explained several financial repercussions should the district be unable to meet the obligations in its bond covenants. First, EID would "likely see an immediate suspension or downgrade of its credit rating, followed by an increase in its existing variable debt interest rates," Brown said. "Interest rates on new borrowings would be higher—if the district were even able to borrow. And EID would have to pay more for its line of credit." The end result would be higher costs to the district and its customers.

Board member George Wheeldon said that the district's 2010 budget includes a rate increase to help comply with the bond covenants and asked what would happen if customers turn the rate increase down. Brown said one option to avoid a judicial takeover would be to adopt a new budget "that cuts expenses or raises rates."

Wheeldon responded that two years of budget cutting had already resulted in a lean budget. EID general counsel Tom Cumpston said that without the rate increase, "We'd have to reduce our current 43 million-dollar budget, the lowest since 2006, by 13 million dollars to 14 million dollars, or nearly one-third."

General manager Jim Abercrombie pointed out that the district promised in its bond covenants to pay back its debt and also said there seems to be "a lot of misinformation about the financial consequences if we don't. We need to get the facts out. That's the purpose of this meeting and our upcoming public meetings. We want to be fully transparent."

MORE >

In mid-December of 2009, after the board adopted the 2010 budget, the district sent a Proposition 218 notice to customers explaining proposed rate increases for water, wastewater, and recycled water services over the next five years. In 2010, the proposed new water rates would add \$6.48 per month to bills for low water users (1800 cubic feet), \$8.31 a month for medium use (2700 cubic feet), and \$21.52 a month for high use (8000 cubic feet). Combined water and sewer bills would go up \$23.18 per month for low use, \$28.38 a month for medium use, and \$41.59 for high use.

The board will consider the proposed rates during a public hearing, scheduled for Thursday, February 4, 2010. The hearing will begin at 6:00 pm in the El Dorado County Board of Supervisors Meeting Room, 330 Fair Lane, Building A, Placerville.

At the request of board members, district staff also organized two public workshops prior to the hearing. The first workshop is scheduled for Wednesday, January 13, 2010, in the El Dorado Hills Fire Department Building, 1050 Wilson Boulevard, El Dorado Hills. The second workshop will be on Monday, January 18, 2010, in the Pollock Pines Community Center, 2675 Sanders Drive, Pollock Pines. Both workshops will begin at 6:00 pm and last until 8:00 pm.

* * * * *

As background, the district issues bonds to finance capital improvement projects for the reliable delivery of safe water and to meet regulatory requirements for water, wastewater, and recycled water treatment. Examples of major capital improvement expenses over the past decade are:

- \$29.5 million to meet requirements for lining and covering the district's treated drinking water storage facilities.
- \$21.6 million for emergency replacement of five miles of the Pleasant Oak water main—the primary drinking water artery for more than 15,000 customer accounts located in the eastern portion of the district's service area.
- \$8.5 million for the Silva Valley Parkway water main.
- \$25.5 million to comply with regulations at the Deer Creek wastewater treatment plant.
- \$61.5 million for improvements at the El Dorado Hills wastewater treatment plant.

For more information, contact Deanne Kloepfer at 530-622-4513.