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Editorial: A pension perk that doesn't wash

EL DORADO DISTRICT AND ITS RATEPAYERS ARE PAYING THE PRICE OF 2004 DEAL

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Five years ago, the El Dorado Irrigation District approved sweeping increases to pension benefits for its employees. Those pension spikes are partly responsible for the district's current budget problems and the rate increases it is seeking to impose on its customers.

Before approving those rate increases, the district board should rescind excessive pension benefits for new hires that its members approved in 2004.

The district notified customers over the Christmas holidays that it will be raising rates by a hefty 35 percent this year, another 15 percent next year and another 5 percent for each of the following three years. District officials say increases of that magnitude are necessary to meet EID's bond obligations.

They blame the housing slump for their budget problems. EID relied on new hookups to cover its costs but development slowed dramatically in recent years. The district estimated it would take in $14 million in fees for new hookups last year but received only $1 million, blowing a $13 million hole in its operating budget.

But there's another item on the cost side of the district's budget. It's one officials don't like to highlight.

In 2004 EID's board approved a 35 percent increase in employee pension benefits. The district's pension formula went from an already generous 2 percent at 55 to 2.7 percent at 55.

Let's break that down. Under the old formula, retirement pay was calculated by multiplying the worker's salary times the number of years worked times 2 percent. Under the new formula, the multiplier is 2.7 percent. For someone who retires after 30 years earning $100,000 annually, the pension payout under the old formula would have been $60,000 a year. Under the new formula it jumped to $81,000, more than one-third higher.

Beyond benefit increases, the 2008 stock market collapse reduced earnings for the district's pension fund. The two together – benefit increases and earnings losses – have had a substantial impact on EID's budget. In 2004, before the new pension formula was approved, the district paid $666,000 to cover employee retirement costs. Last year, it paid $3.03 million. Retirement costs alone accounted for 7.5 percent of the district's $44 million operating budget last year.

El Dorado County Auditor-Controller Joe Harn is an EID customer, "someone who takes a shower in EID water every morning," as he describes himself. A fierce critic of past EID management, he believes the current general manager and his staff are trying to "clean up the mess."

Nonetheless, Harn says, the 2.7 percent pension benefit formula EID board members approved in 2004 was a mistake. EID costs "increased astronomically, and now ratepayers are being handed the bill."

The rate increases sought by EID are not a done deal. If 50 percent of ratepayers plus one file protests, the district may not raise rates. Before the new rates go into place, EID management owes district customers a thorough accounting of pensions and other personnel costs.

At minimum, before taking any action, the district ought to repeal the 2.7 percent retirement benefit for new hires. Neither the district nor ratepayers can afford it.