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Water districts rush to replace state funding losses

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6:57 p.m. July 29, 2009

Already pressured by tight supplies and sharply criticized for previous rate hikes, several water districts in San Diego County are scrambling to replace millions of dollars that will be taken away by the state in the coming months.

Final decisions are expected to trickle out after water agencies analyze how much they will lose, probably about 8 percent of the total property taxes they collect.

The choices, managers say, will be difficult: tap reserves, raise rates, delay projects, trim services or even take out loans.

“The local ratepayers end up paying one way or the other,” said Keith Lewinger, general manager of the Fallbrook Public Utility District. “All Sacramento did in my mind was shift the blame-game from themselves to the local agencies that now have to pass through some sort of increased fee to make up for the money that Sacramento just stole.”

Gov. Arnold Schwarzenegger this week signed a comprehensive budget-balancing plan that relies on borrowing about $2 billion from property taxes used by cities, counties and special districts for local services.

“It's fine for (state legislators) to say that they have passed a balanced budget without raising taxes,” said Gary Arant, general manager of Valley Center Municipal Water District.

“But the fact of the matter is that at some point that shortage of revenue either translates into lower services or increased of cost of services. There is no free lunch here.”

Schwarzenegger and legislative leaders say the $24 billion gap between state revenues and spending left them little choice but to reach into local tills. The money must be repaid with interest no later than June 30, 2013, as required under a ballot measure approved by voters.

The repayment structure is a relief for some water managers. During the last diversion, in 2004, water districts absorbed the lion's share of the $800 million taken over two budget cycles because, lawmakers reasoned, the districts could raise rates to cover the loss. Water districts commonly use a combination of property taxes and rates to pay for services.

“It is a much better world now than we were living in,” explained Tim Quinn, executive director of the Association of California Water Agencies.

“Our members got hit very hard with no payback (in 2004).”

For example, the San Diego County Water Authority will never see the $9.4 million shipped to the state during that period. Now, the nearly $750,000 it expects to lose will be returned with interest.

Eric Sandler, the water authority's chief financial officer, said the board will probably decide to tap its reserves of about $43 million to cover the shortfall.

“It's absolutely a lot of money,” Sandler said. “But the impact on us will be much less than on our member agencies.”

Retail water districts “are going through some of the most difficult financial times ever,” said Quinn, noting the added burdens of drought, fewer water sales and more regulations.

Arant expects Valley Center will lose more than $200,000 at a time when income from water sales has taken a dive.

“We are seeing a lot of different variables acting to hurt us financially,” Arant said.

The district's board aims to avoid another rate increase even if it means scaling back facility upgrades. Deferring projects comes with costs as well, he said, including inflation.

In Fallbrook, Lewinger is thankful that the tax raid “is not nearly as catastrophic as it could have been.” But he's not happy with the projected $160,000 loss. It put capital improvement projects on hold in 2004 when the state raided local funds. Today, a reservoir and pump stations need updating.

“Delaying projects again does not appear to be a viable option and we will probably we looking at some kind of a surcharge to our customers to make up that $160,000,” he said.

At the Olivenhain Municipal Water District in Encinitas, leaders are hoping to avoid levying higher rates but leaving open the possibility of an added fee, said Rainy Selamat, finance manager for Olivenhain.

The agency's customers already are bracing for a roughly 9 percent jump in their water rates starting in September. Rate increases are on tap countywide to cover the rising costs of supplies.

Some of the larger water districts, such as Otay, don't anticipate a direct impact on customers. Otay will likely lose about $300,000 out of an overall budget of $113 million.

“We will take money out of the reserves and book it as a loan to the state,” said Mark Watton, general manager at Otay.

San Diego officials said they do not expect much of an impact either because the city's water utility relies almost completely on ratepayers instead of tax revenues. Mike Lee: (619) 542-4570; mike.lee@uniontrib.com

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