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SSJID more flush than PG&E?

Prudent financial management may send reserves past \$62M

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The South San Joaquin Irrigation District continues to position itself financially to acquire the South County PG&E retail system should the opportunity arise.

The board Tuesday authorized the issuance of \$25 million in tax-exempt bonds that will cover the cost of the just completed Robert O. Schulz Solar Farm, a pressurized irrigation system southwest of Manteca and the district's share of a third power generator at Tulloch Dam.

If all goes according to plan, the SSJID within 26 days will have more unrestricted reserves on hand than PG&E did at the end of this year's first quarter when it had \$62 million.

The tax-exempt bonds will repay the district \$12 million spent on the solar plant to effectively spread the cost over future treated water customers who will benefit from the operation instead. That will send SSJID's unrestricted reserves soaring past the \$62 million mark thanks to decades of prudent management and investments in the Tri-Dam System.

And the district is reaching the point where its unrestricted reserves is equal to over three times their annual operating budget even after suspending water charges this year for the district's agricultural customers and reducing raw water costs to the cities operating the Nick DeGroot Surface Water Treatment Plant.

Bond advisors present at Tuesday's meeting lauded the district for decades of visionary thinking and prudent management that earned it a Standard & Poor's AA bond rating without having to pay for bond insurance. That is a rating that only a few major metropolitan water districts can attain and is virtually unheard of for a relatively small district such as SSJID.

The rating coupled with the current market means there is a strong likelihood the net interest rate for the tax-exempt bonds will be 4 percent that translates into a \$2,828,771 annual debt repayment.

The district is essentially borrowing to save money as it is getting higher yields off unrestricted reserves that it is investing - as high as 8.38% on one corporate bond issuance delineated in the June financial reports. It also protects the money that is being committed to pay off the bonds - local property tax - from being "borrowed" by the state to help cover the California's \$17 billion deficit. The legislative analyst also has been recommending shifting a portion of the property tax of special districts such as SSJID to pick up the tab for new parole officers the state will need to hire when it proceeds with plans to release 25,000 prisons from the state correctional system ahead of schedule.

Should the district go ahead and acquire the PG&E retail system serving Manteca, Escalon, and Ripon in its bid to reduce all power rates at least 15 percent across the board, it will not be able to issue tax-exempt bonds to take over a quasi-public utility such as PG&E that has been invested by the state with powers that range from monopoly operations until a few years ago to the ability to use eminent domain as it sees fit to take private property for power lines and natural gas pipelines.

The SSJID would also be in the position to pay cash for the PG&E system should the value their appraiser attached to the system hold up ultimately in either the PG&E boardroom or San Joaquin County Superior Court if they convince the San Joaquin Local Agency Formation Commission that they have the wherewithal to run a retail power system.

The SSJID has been generating and delivering wholesale power without complaint for their sole customer for 54 years - PG&E.

Ironically, PG&E is also helping SSJID build up its financial reserves that could be used to purchase part of its system.

Even though power generating is lower due to the drought from the Tri-Dam System the district operates in a 50-50 partnership with Oakdale Irrigation District on the Stanislaus River, revenues are up significantly due to a 30 percent jump in hydroelectric power on the open market.

As of July 31, Tri-Dam's receipt from sales to PG&E for the year was at \$20.35 million. That compares to \$19 million for all of 2007. After taking out operating costs for Tri-Dam, the two irrigation districts split the proceeds 50-50. The odds are strong that SSJID may add another \$12 million to its unrestricted reserves before the year ends.

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