



San Diego County Water Authority

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June 5, 2013

John (Jack) V. Foley and
Members of the Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

Helix Water District

Lakeside Water District

Olivenhain
Municipal Water District

Otay Water District

Padre Dam
Municipal Water District

Camp Pendleton
Marine Corps Base

Rainbow
Municipal Water District

Ramona
Municipal Water District

Rincon del Diablo
Municipal Water District

San Dieguito Water District

Santa Fe Irrigation District

South Bay Irrigation District

Vallecitos Water District

Valley Center
Municipal Water District

Vista Irrigation District

Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

June 5, 2013

RE: Board Memo 8-1 – Mid-cycle Biennial Budget Review and Recommendation for Use of Reserves over Target Water Rate Increases – OPPOSE AND REQUEST FOR REFUND TO RATEPAYERS OF EXCESS RESERVES

Board Memo 8-2 – Suspend the tax rate limitations in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem tax rate for fiscal year 2013/14 – OPPOSE

Dear Chairman Foley and Board Members:

In April 2012, this Board voted to raise water rates by 5% for 2013 and 2014 based on the staff's report that limiting water rate increases to no more than 3% would leave MWD unable to pay for critical infrastructure needs on the Colorado River Aqueduct. At that time, MWD staff also represented that the rate increases were based on maintaining reserve levels from 2012 through 2017 at, or close to the board-adopted minimum target.

As in past years, MWD's estimations of water sales and actual expenditures have proven to be materially different than assumed for budget and rate-setting purposes. Far from being unable to pay for critical infrastructure, MWD ended fiscal year 2012 – less than three months after adopting rates -- with an extra \$97 million to add to its reserves. According to this month's board report, MWD will, before it ends fiscal year 2013 at the end of this month, add another \$217 million to its unrestricted reserves, causing the reserves to exceed the maximum limit by \$75 million. ***In less than 15 months, MWD has collected \$314 million more than needed to pay 100% of its budgeted expenditures.***

Many of the cities we serve are struggling with their own budgets to make ends meet and pay for critical infrastructure. Many of the ratepayers we serve are also struggling to make ends meet during a period of lower incomes and escalating costs. We owe it to our cities and ratepayers to be better stewards of the precious dollars water ratepayers entrust to us when they pay their water bills. We once again call on this Board to establish a ***Fiscal Sustainability Task Force*** to develop a long-range finance plan and accounting, budget, and rate-setting protocols to ensure that every dollar MWD collects is used for its intended purpose, and, that MWD does not collect more money than it really needs.

In the meantime, we call on the board to **REFUND the \$75 million in excess reserves**, rather than shift this money to unplanned, unbudgeted expenditures. Attachment 1 to this letter shows approximately¹ how much MWD could refund to each of its member agencies. We also once again call on the Board to act now to **REDUCE the planned water rate increase for 2014 from 5% to 3%**. Reliance on budget estimates proven to be materially incorrect is unwarranted in the face of the actual facts.

For the same reason, we **OPPOSE Board Memo 8-2 proposing to suspend the tax rate limitations** in Section 124.5 of the MWD Act. We have reviewed the legislative history of SB 1445. We disagree that it was “meant to increase Metropolitan’s financial flexibility.” The clear purpose of the legislation was to limit the imposition of future taxes by MWD, with the ultimate goal that the tax be eliminated. The Legislature instead provided different tools to allow MWD to cover its fixed costs including standby or readiness-to-serve charges and benefit assessments, as clearly acknowledged in the Board Memo. The fact that MWD has failed to better utilize these and other tools as part of a long-range plan to cover its fixed costs does not translate to a need for higher taxes.

MWD cannot credibly claim that additional tax revenues of \$4.4 million are “essential to the fiscal integrity of the District” at the very same time it has amassed \$549 million in unrestricted cash reserves, exceeding the projected reserve levels forecasted in the adopted biennial budget (\$220.8 million)² by \$328.2 million, and surpassing the board-adopted maximum reserve target by \$75 million. This issue should also be addressed as part of a long-range finance planning process in which all long term costs and sources of revenue may be considered, rather than the ad hoc decision-making that is being presented to this board.

Finally, there is no factual support for the statements in Board Memo 8-2 that the imposition of a tax increase is necessary to “preserve equity across member agencies” or that MWD’s current rates and charges have been assessed in a manner designed to reflect equity or the actual costs of the services MWD provides. While we support the fiscal objectives as described – balance between fixed costs and fixed revenues and equity across member agencies – we do not agree that the way to achieve this is to suspend the tax limitation for one year. Instead, MWD should conduct a cost-of-service study as part of a long-range financial planning process in order to ensure accomplishment of these important objectives.

Sincerely,



Keith Lewinger
Director



Vincent Mudd
Director



Fern Steiner
Director

Attachment 1: Estimated refund of MWD over-collection

Attachment 2: Comparison of MWD reserves forecast

cc: Jeffrey Kightlinger
San Diego County Water Authority Board of Directors

¹ Based on 11 months (July 2012 through May 2013) of member agencies’ payment of rates and charges (data source: MWD WINS).

² Attachment 2 to this letter shows MWD’s projected reserves when the budget was adopted in April 2012 compared to reserves projected in April 2013 (data source: MWD PowerPoint dated 4/8/2013)

Estimated Refund of MWD Over-Collection

Fiscal Year 2013*				
MWD Member Agency	Total Contribution Rates and Charges (07/12 - 06/13)	Total Contribution (in %)	\$	75,000,000
Anaheim	\$ 14,178,498.33	1.13%	\$	847,769
Beverly Hills	\$ 9,133,714.68	0.73%	\$	546,129
Burbank	\$ 9,864,635.91	0.79%	\$	589,832
Calleguas	\$ 87,186,626.45	6.95%	\$	5,213,115
Central Basin	\$ 28,231,187.87	2.25%	\$	1,688,016
Compton	\$ 1,364,481.90	0.11%	\$	81,586
Eastern	\$ 71,031,751.96	5.66%	\$	4,247,173
Foothill	\$ 6,603,113.95	0.53%	\$	394,817
Fullerton	\$ 7,611,689.48	0.61%	\$	455,123
Glendale	\$ 14,894,768.04	1.19%	\$	890,597
Inland Empire	\$ 30,355,607.00	2.42%	\$	1,815,041
Las Virgenes	\$ 18,087,663.81	1.44%	\$	1,081,508
Long Beach	\$ 25,055,739.11	2.00%	\$	1,498,148
Los Angeles	\$ 261,368,067.87	20.84%	\$	15,627,876
MWDOC	\$ 149,249,392.78	11.90%	\$	8,924,009
Pasadena	\$ 14,646,995.66	1.17%	\$	875,782
San Diego	\$ 273,850,600.54	21.83%	\$	16,374,239
San Fernando	\$ 72,742.55	0.01%	\$	4,349
San Marino	\$ 615,129.24	0.05%	\$	36,780
Santa Ana	\$ 8,756,935.65	0.70%	\$	523,600
Santa Monica	\$ 5,489,296.52	0.44%	\$	328,219
Three Valleys	\$ 47,988,374.68	3.83%	\$	2,869,350
Torrance	\$ 13,646,271.90	1.09%	\$	815,946
Upper San Gabriel	\$ 8,975,149.06	0.72%	\$	536,647
West Basin	\$ 94,668,219.86	7.55%	\$	5,660,459
Western	\$ 51,409,167.96	4.10%	\$	3,073,888
Total	\$ 1,254,335,822.76	100.00%	\$	75,000,000

Note: Totals may not foot due to rounding

*Based on 11 months (July 2012 through May 2013) of member agencies' payment of rates and charges (data source: MWD WINS, June 5, 2013)

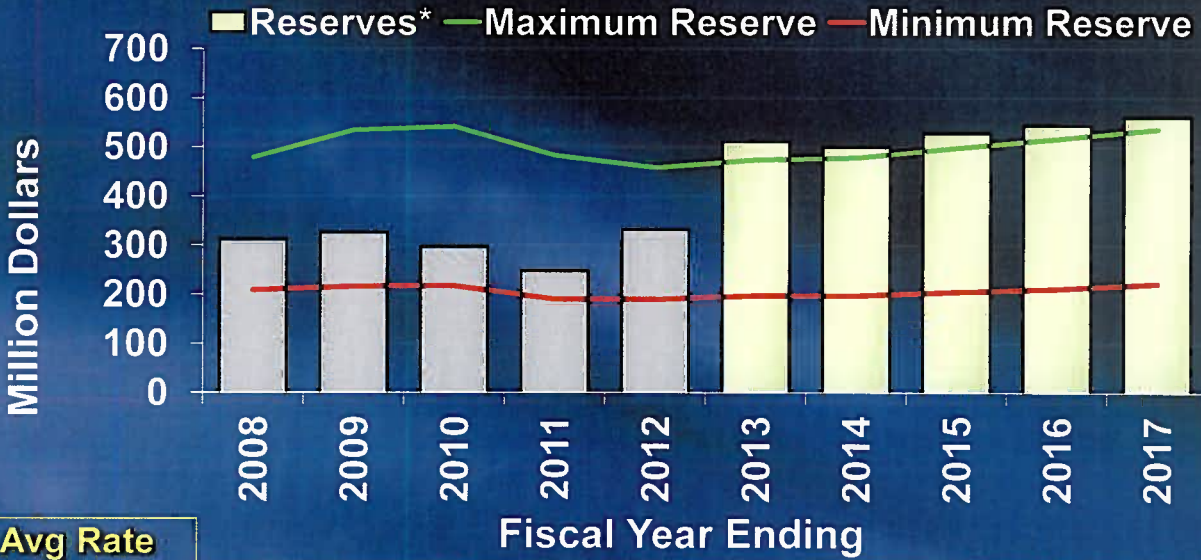
FY2013 & FY2014 Budget



Avg Rate Increase	6%	14%	20%	7.5%	7.5%	5%	5%	← 3% to 5% →		
Sales, MAF	2.3	2.2	1.8	1.7	1.7	1.7	1.7	1.75	1.75	1.75
PAYGO, \$M	43	30	37	45	45	55	125	125	125	125
Rev. Bond Cvg	1.8	1.8	1.6	1.5	1.5	1.6	1.9	1.9	2.0	2.0
Fixed Chg Cvg	1.3	1.3	1.1	1.0	1.1	1.2	1.3	1.3	1.3	1.3

* Includes Water Stewardship Fund
 FY2013 and beyond are based on modified accrual

Updated Forecast



Avg Rate Increase	6%	14%	20%	7.5%	7.5%	5%	5%	3%	3%	3%
Sales, MAF	2.3	2.2	1.8	1.7	1.7	1.8	1.7	1.75	1.75	1.75
PAYGO, \$M	43	30	37	45	45	55	125	125	125	125
Rev. Bond Cvg	1.8	1.8	1.6	1.5	1.8	2.2	1.9	2.1	2.0	2.1
Fixed Chg Cvg	1.3	1.3	1.1	1.0	1.3	1.7	1.3	1.4	1.4	1.4

* Includes Water Stewardship Fund
 FY2013 and beyond are based on modified accrual