METROPOLITAN: A TRADITION OF SOUND SPENDING

Item A

With a major public relations campaign throughout Southern California, the San Diego County Water Authority (SDCWA) is mischaracterizing Metropolitan's financial practices during the recent drought years as charging too much for water and spending too much on investments. Thanks to water Metropolitan had in reserve going into the drought, Southern California withstood the historic dry cycle without economic hardship and on sound financial footing.

METROPOLITAN ALWAYS SETS RATES TO COVER ANTICIPATED COSTS – AND NO MORE

- Metropolitan sets rates every two years based on an exhaustive study of future costs.
- Rates are based on an average of many potential weather conditions.
- Actual sales can vary significantly based on actual weather conditions.
- This is customary and part of Metropolitan's role as a supplemental supplier of Southland water.

THE DROUGHT INCREASED DEMANDS ON METROPOLITAN RESERVES

- Member agencies can increase their demands on Metropolitan during droughts as their own supplies become limited.
- Metropolitan was able to meet the increased demand thanks to water held in the District's storage network.
- The result was higher-than-expected sales, not water "overcharges."

METROPOLITAN SEIZED OPPORTUNITIES TO MAKE HISTORIC INVESTMENTS

- Unrelated to the drought, strategically important lands on the Colorado River and Sacramento-San Joaquin Delta became available.
- Metropolitan's Board of Directors decided to purchase these lands as valuable future assets.
- Related to the drought, Governor Brown declared a statewide emergency in April 2015.
- Metropolitan responded with the largest turf removal program in the nation, transforming thousands of landscapes and locking in cost-effective water savings for decades to come.

LOW DEBT LOAD MAINTAINS FINANCIAL STABILITY

- Metropolitan purchased these investments with cash from its funds.
- In an unrelated matter, Metropolitan has been required to set aside disputed payments until a lawsuit over rates with SDCWA is resolved.
- While the land acquisitions resulted in Metropolitan issuing additional bonds, the overall level of debt for our size is manageable and much lower than that of SDCWA.
- Metropolitan maintains some of the highest Wall Street credit ratings of any government agency in California.
- With the wet winter now allowing Metropolitan to replenish its water reserves, the District will be able to store valuable new water supplies for future droughts.

MISINFORMATION ABOUT METROPOLITAN FINANCES

SDCWA in 2017 began the unusual step of writing letters to local officials outside of its service area. The letters contain misrepresentations that question Metropolitan investments and financial practices. SDCWA has hired a public relations firm for approximately $50,000 a month, apparently to conduct public relations critical of Metropolitan. The following summarizes the misrepresentations and Metropolitan's track record on the subject.

SDCWA allegation: Metropolitan charges too much for water

- **Metropolitan over the years has always set its rates to recover anticipated costs, including anticipated sales of our imported water supplies.**
- During the recent drought years, member agencies purchased far more supplies from Metropolitan than anticipated because their own supplies became limited.
- Metropolitan met those higher demands, including all requests from SDCWA.
- SDCWA through a lawsuit is seeking to shift costs for its own Colorado River water acquisition onto MWD's 25 other member agencies over the coming years, a plan it is not mentioning in its public relations campaign in other communities.

SDCWA allegation: Metropolitan made unplanned investments

- **Metropolitan seized on three major unanticipated opportunities during the drought.**
- To support the reliability of imported supplies from the Colorado River, Metropolitan purchased land in the Palo Verde Valley for $264 million.
  - SDCWA voted in favor of this "unplanned" investment.
- To help accelerate a shift away from lawns to California Friendly® landscapes, Metropolitan funded the nation's largest turf removal program.
  - The cost of this water savings is estimated to be far less than developing new water.
- Metropolitan purchased four Delta islands for multiple potential values consistent with the co-equal goals of a restored Sacramento-San Joaquin Delta and a reliable water supply from the State Water Project.
  - The lands are potentially vital for the proposed California WaterFix project, habitat restoration or other possible uses.

SDCWA allegation: Metropolitan has too much debt

- **Metropolitan has a manageable debt load that has actually declined in recent years compared to overall assets.**
- SDCWA for its size has a much greater debt load than Metropolitan.
- Metropolitan maintains high credit ratings in part because of the very same water rates and sound financial practices criticized by San Diego.

WHO IS METROPOLITAN

The Metropolitan Water District of Southern California is a state-established cooperative of 26 member agencies – cities and public water agencies – that serve nearly 19 million people in six counties. Metropolitan imports water from the Colorado River and Northern California to supplement local supplies and helps its members develop increased water conservation, recycling, storage and other resource-management programs.

OUR MISSION

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

The Metropolitan Water District of Southern California

700 N. Alameda St.
Los Angeles, CA 90012

P.O. Box 54153
Los Angeles, CA 90054-0153

(213) 217-6000

(800) call-mwd (225-5693)

BE INFORMED, BE INVOLVED

www.mwdh2o.com

@mwdh2o

March 2017

Item A

San Diego County Water Authority

MWD Statements and Water Authority Response

MWD Statement	Water Authority Response
"We [MWD] are your primary water provider." Meena Westford at San Diego County Board of Supervisors, March 22, 2017.	**False.** In 2016, MWD provided 41 percent of all water used in San Diego County. That number will decline to 21 percent in 2020, and 13 percent in 2035.
"We [MWD] typically deliver more than 80 percent of all the water that comes into San Diego." Meena Westford at San Diego County Board of Supervisors, March 22, 2017.	**Misleading.** MWD continues to claim that San Diego's independent supply of Colorado River water, which MWD wheels for San Diego under the parties' Exchange Agreement, is a "sale" of MWD water. This is false; the trial court has already ruled in favor of the Water Authority and against MWD on this point in the rate litigation. MWD transports our IID supplies which represent nearly 40% of our total supply.
"Metropolitan sets rates every two years based on an exhaustive study of future costs." Metropolitan's *A Tradition of Sound Spending.*	**Misleading.** It is impossible to know how MWD sets its rates because **MWD claims that its financial planning model, which it uses to set its rates, is a trade secret.** The Water Authority has been forced to file a Public Records Act lawsuit in order to obtain this information. No member of the public or even MWD's own board of directors knows how MWD has actually allocated its costs and set its rates, without access to this information. MWD's public statements of its rates and charges, including its defined "Cost of Service" reports, do not explain the specifics of MWD's cost allocations or rate setting, or demonstrate that MWD's rates are consistent with legitimate cost allocations.
"Metropolitan engages in long-range financial forecasting." Meena Westford at Water Authority's Administration and Finance Committee, March 23, 2017.	**Misleading.** MWD's 13-page 10-year rate forecast included in its budget document is not, and is no substitute for, a long range finance plan (LRFP). A LRFP would properly be designed as a planning document that MWD and its member agencies could use as the basis of future capital and operating decisions. If MWD had such a LRFP it would not be so prone to making major unplanned expenditures or unplanned borrowing. MWD last updated its LRFP in 2004; it was subsequently unable to get its member agencies to agree on a LRFP to pay for MWD's projects and abandoned the effort. According to the GFOA Long-Term Financial Planning Best Practice: LRFP combines financial forecasting with strategizing; it is a highly collaborative process that considers future scenarios and help navigate challenges; elements of a plan include a time horizon, scope, frequency, content and visibility. MWD's long-range financial

MWD Statement	Water Authority Response
	forecasting does not strategically plan for future challenges in a collaborative process, and lacks key elements of long range financial planning.
"We look at every facet of our budget and make careful, calibrated detailed forecasts of where MWD finances are heading for the decade ahead." Meena Westford at Water Authority's Administration and Finance Committee, March 23, 2017.	**False.** This claim cannot possibly be reconciled with MWD's record of unplanned spending in excess of $1.2 billion. The "opportunities" to spend $450 million on conservation and turf removal and $175 million on delta islands certainly existed at the time MWD's budget was adopted, however, these enormous expenditures were not included in MWD's budget nor the 10-year rate forecast that MWD wrongly describes as a "long range finance plan."
"When the drought was at its worst, we met all regional deliveries..." "Metropolitan was able to meet the increased demand thanks to water held in the District's storage network... Meena Westford at the San Diego County Board of Supervisors on March 22, 2017.	**Misleading.** This statement fails to note that MWD was forced to draw down more than 1.1 MAF of water from its storage in 2014, resulting in a 15% supply cutback in 2015. The Water Authority was able to use its own supply investments to reduce the severity of MWD's cutback to 1% of the Water Authority's total supply.
"...the result was higher than expected sales, not water "overcharges." Metropolitan's *A Tradition of Sounding Spending.*	**False.** Rather than basing its budget on its member agencies' water purchase projections and actual available data and information, MWD bases its budget and rates *on sales assumptions* that MWD deliberately designed to result in the over-collection of revenue in seven out of 10 years. (Chief Financial Officer Gary Breaux at MWD's April 8, 2013 F&I Committee)
"We look at State Water Contract costs long term based on detailed information provided by the state as well as our own forecasts of power costs." Meena Westford at Water Authority's Administration and Finance Committee, March 23, 2017.	**False.** MWD fails to consider *actual conditions* when setting its budget and rates. For example, during the recent drought, MWD refused to adjust its budgeted State Water Project costs – MWD's single largest cost – to reflect the prolonged dry conditions and resulting unlikelihood that the State Water Project's allocation would be 50%. As a result, MWD set its rates to collect enough revenue to cover the costs of receiving a 50% State Water Project allocation, even though MWD did not expect to receive anywhere near that amount of water. When MWD did not receive a 50% allocation, and thus did not incur the costs associated with a larger allocation, it charged rates much higher than necessary to cover its costs and thus significantly overcollected. MWD should have set rates designed to recover its actual, anticipated, and much lower costs of receiving the 20% allocation the SWP actually provided.

MWD Statement	Water Authority Response
"Metropolitan purchased these investments with cash from its funds." Metropolitan's *A Tradition of Sounding Spending.*	**False.** Combined, MWD's purchase of delta islands, Palo Verde Irrigation District land and conservation program funding largely for turf removal, totaled about $870 million. MWD paid these costs by drawing down its financial reserves and by using revenues budgeted to cover other MWD capital expenses. Further, in order to keep MWD's cash reserves from falling below the minimum amount required by MWD's Administrative Code, MWD authorized the issuance of up to $596 million in debt.
"SDCWA through a lawsuit is seeking to shift costs for its own Colorado River water acquisition onto MWD's 25 other member agencies over the coming years, a plan it is not mentioning in its public relations campaign in other communities." Metropolitan's *A Tradition of Sounding Spending.*	**False.** In fact, the exact opposite is true. A neutral San Francisco Superior Court Judge has already ruled against MWD on this point, finding that its rates are illegal under the common law, statutory law and the California Constitution, because they allocate costs incorrectly to San Diego. It is MWD that improperly assigned costs, not the Water Authority.
"Standard practice" or "standard fashion" dictates that all financial graphics use the number zero in the "x-y axis." Meena Westford at Water Authority's Imported Water Committee, March 23, 2017.	**False.** MWD provided no citation to any applicable accounting standard to support the assertion of such a "standard practice." Professional training and basic common sense dictates that any financial graphic be designed to tell the truth (rather than obscure it) and clearly illustrate the point at issue. The use of a zero axis in the context of such large numbers would tend to obfuscate rather than focus attention on the point at issue.
On sales, the [Water Authority] staff graphic would suggest at a glance that we are heading to zero sales. Meena Westford at Water Authority's Imported Water Committee, March 23, 2017	**False.** The staff graphic does not "suggest" that MWD is heading to zero sales, either "at a glance" or otherwise. MWD statement appears designed to deflect the reader from the real issue addressed by the chart: MWD sales have been declining and continue to decline to a material extent.
"Water Authority's own rates and charges for treated water are about 60 percent higher than that of Metropolitan, and the Water Authority's rates and charges for untreated water are about 90 percent higher than that of Metropolitan." Meena Westford at Water Authority's Imported Water Committee, March 23, 2017	**Misleading.** The MWD treatment charge is $313 per acre-foot while the Water Authority's treatment charge is $290 per acre-foot. Over the last 10-year period from CY 2008 to CY 2017 MWD rate increases have been 7.7% for untreated and 7.9% for treated water. Over the same time period, the Water Authority's rate increases for untreated were 8.9% and 8.5% for treated water.

San Diego County Water Authority

MWD Statement	Water Authority Response
"SDCWA for its size has a much greater debt load than Metropolitan." Metropolitan's *A Tradition of Sounding Spending.*	**Misleading.** A lower debt load, by itself, does not necessarily equate to better financial position. The Water Authority's higher debt load (FY 2016/2017 Debt Burden – 18.9 %) is appropriate and consistent with best practices given its CIP Program which is designed to produce and is producing a highly reliable water supply for San Diego. MWD's debt load is slightly lower at 16.8%.