



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

September 20, 2015

Randy Record 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

RE: Board Memo 8-6: Approve the introduction by title only of an Ordinance Determining That The Interests of The District Require The Use of Revenue Bonds In The Aggregate Principal Amount of \$500,000,000 -- **OPPOSE**

Chair Record and Members of the Board:

We have reviewed Board Memo 8-6 seeking the Board’s approval for the introduction by title only of an ordinance determining that the interests of MWD require the use of revenue bonds in the aggregate principal amount of \$500 million. We oppose this item because there is no factual basis for a determination by the board of directors that the use of revenue bonds as described in Board Memo 8-6 and attached Ordinance is in MWD’s interest. Consideration of whether the use of revenue bonds is in MWD's interest requires a more comprehensive look at a number of actions by the MWD board that are not described in the Board Memo and have had a material impact on MWD's current financial condition.

In April 2014, rather than reducing or maintaining its existing rates , MWD’s adopted biennial budget for fiscal years 2015 and 2016 increased MWD's water rates by 1.5 percent per year for fiscal years 2015 and 2016 and presented a schedule projecting rate increases of 3 – 5 percent per year through 2024. In addition, the MWD board voted to suspend tax rate reductions that would otherwise occur, claiming that the increase in tax revenues by an additional tens of millions of dollars were necessary to maintain MWD's fiscal integrity. The MWD board made this finding based on staff recommendation at the same time its cash reserves were so great that the adopted budget planned to pay 100 percent of MWD's Capital Investment Plan for fiscal years 2015 and 2016 out of cash on hand (and then slowly eases to 60 percent cash CIP financing over the remaining years through 2024). Because MWD’s recently adopted budget process no longer even attempts to estimate MWD's revenues and expenses based on actual conditions -- choosing instead to set rates based on low water sales that are expected to be exceeded seven out of ten years -- since 2012, MWD has collected \$800 million more than actual expenditures based on original adopted budgets. The MWD board chose to spend this money on unbudgeted expenditures,

A public agency providing a safe and reliable water supply to the San Diego region

including the unprecedented increase in water conservation funding -- more than ten times the adopted budget -- from \$40 million to \$450 million including a hastily structured turf replacement program,ⁱ now all of these revenues have been spent.

MWD's use of revenue bonds would be entirely unnecessary if the MWD board adopted and followed sound fiscal policies and practices. MWD needs a long-range finance plan. MWD needs to complete the update of its Integrated Resources Plan. MWD needs a new rate structure consistent with California statutes and the Constitution. MWD needs to credibly demonstrate that these plans are functionally integrated.

The Water Authority will need more time to consider the implications of the proposed ordinance. We do not support introduction of the ordinance by title only. Lastly, Board memo 8-6 was not available with the regular board mailing. MWD's consistent late delivery of a majority of the board reports makes it extremely difficult for our staff to provide the technical support necessary for our deliberation of MWD staff recommendations. We renew past requests that board memoranda be distributed at least seven days in advance of MWD board meetings.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Fern Steiner
Director



Yen C. Tu
Director

Attachment: Water Authority's July 9, 2015 letter to MWD Board

ⁱ MWD's turf replacement program was poorly structured and did not incorporate recommendations from a CUWCC report that it participated in and funded. Many have raised questions about MWD's implementation of turf replacement including the most recent LA Times article:
<http://touch.latimes.com/#section/-1/article/p2p-84445011/>



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

July 9, 2015

Randy Record and
Members of the Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

RE: Board Memo 8-4: Adopt a resolution for the reimbursement with bond proceeds of Capital Investment Plan projects funded from the General Fund and Replacement and Refurbishment Fund -- **OPPOSE**

Chair Record and Members of the Board:

The Water Authority's MWD Delegates have reviewed the July 14, 2015 board memo 8-4 seeking the Board's authorization to declare MWD's intent to issue up to \$300 million of debt to "reimburse" capital expenditures for projects funded from the General Fund and Replacement and Refurbishment (R&R) Fund. We oppose this item because staff's recommendation will obligate MWD to increase water rates by at least \$15 per acre-foot without an actual board vote for the rate increase, and for the reasons further stated in this letter.

Staff's practice of presenting board actions piecemeal has paralyzed the board's ability to make sound public policy decisions. This month's action is another example. The board memo states that the debt issuance would provide MWD the "financial flexibility" desired because of the projected draw down of reserves as a result of the May action to pay for the unbudgeted conservation programs,ⁱ and that "expenditures for water management activities such as replenishing storage and funding transfer and exchange programs could significantly [further] draw down financial reserves in the near future." But it was staff's own recommendation in May to spend \$350 million on unbudgeted conservation expenditures – namely turf removal -- that placed MWD in this precarious fiscal position. This situation was completely foreseeable.

The May action not only spent MWD's not-yet-realized excess revenue collection,ⁱⁱ it also completely drained the Water Management Fund (WMF) – established for the very purpose of covering future costs associated with replenishing storage and water transfers – to fund turf removal, an expense for which the WMF was not intended. Staff expressed no concern when it recommended to spend down the WMF. The Board was repeatedly told in May that

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

Chair Record and Members of the Board

July 9, 2015

Page 2

staff's recommendation would not result in any rate impacts. But this month's action, which was precipitated entirely by May's unbudgeted expenditures, will in fact result in increases in MWD water rates by at least \$15 per acre-foot. (MWD staff reported in the past that every \$20 million in debt issuance equates to \$1 per acre-foot increase in water rates based on 2 million acre-feet of water sales; the rate increase will be higher for lower water sales volumes.) What has changed so drastically that is causing staff to be so concerned with the lack of financial flexibility triggered by an action it recommended just only six weeks ago? Did staff not foresee when it made the recommendation to spend down the WMF in May that its "flexibility" to purchase transfer supplies and to replenish depleted dry-year storage accounts would be more limited?

We disagreed with staff's assessment in May that the increase in conservation funding would not result in rate impacts. However, we believe staff's assertion that the action would have no rate impact persuaded many Board members to support the unprecedented and unbudgeted spending. While this month's action clearly has rate implications, the board memo yet again makes no reference to the rate increases.

Since fiscal year 2012, MWD collected more than \$800 million in revenues that exceed actual expenses. And since 2013 and in each year following, these over-collections have caused MWD's reserves to exceed the Board established maximum limits by hundreds of millions of dollars -- largely caused by staff's strategy, endorsed by this Board's votes of approval -- to set rates based on artificially deflated sales amounts, which staff said would be exceeded seven out of 10 years.ⁱⁱⁱ Rather than using the over-collections to manage rate and tax increases, MWD kept and spent the monies on unbudgeted items.

Nearly as quickly as MWD amassed more than \$800 million in over-collected revenues, they are now nearly all gone, and MWD is resorting to budget shell games of taking cash from the capital investment plan to cover massive spending on turf removal. It is obvious that this proposal to issue \$300 million in new debt is a post-facto, 30-year debt financing of turf removal subsidies approved just weeks ago. This is not sound fiscal management.

When the biennial budget for fiscal years 2015 and 2016 was adopted, we asked that MWD use the revenue over-collection to reduce rate increases and not raise taxes, staff instead recommended using part of the over-collections to cash-fund capital projects to "avoid future rate increases." This month's 8-4 recommendation is an about-face from staff's earlier rationale in support of cash-funding the capital program.

Chair Record and Members of the Board

July 9, 2015

Page 3

Finally, MWD's Administrative Code (Section 5200(b)) clearly restricts the use of monies from the R&R Fund to capital program expenditures. It is unclear how staff's proposal to issue debt would afford MWD the ability to use R&R funds for operational costs related to water transfers or purchases of water to replenish storage.

For reasons stated in this letter, we oppose staff's recommendation. We urge our fellow Board members to vote no on this action as well. This action is an inappropriate attempt to debt-finance very expensive turf rebates that produce no significant immediate supply relief during the drought.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Fern Steiner
Director



Yen C. Tu
Director

ⁱ MWD increased conservation spending in May by an additional \$350 million and was to be funded by the following sources: 1) Water Stewardship Fund (\$50 million), 2) Water Management Fund (\$140 million), and 3) projected excess revenue collection that exceeded maximum reserves target (\$160 million); however, board memo 9-1 this month indicates that the projected excess revenue collection is trending at \$120 million, requiring the use of \$40 million from Water Rate Stabilization Fund.

ⁱⁱ The May action authorized the expenditures of anticipated over-collection of \$160 million, which is trending now at \$120 million (see also footnote ii).

ⁱⁱⁱ Fiscal year 2016 is a good example; according to staff, MWD's water sales at the reduced Level 3 supply allocation (15 percent reduction) will still exceed the budgeted assumption of 1.75 million acre-feet.