

# METROPOLITAN’S RESPONSE TO SDCWA STATEMENTS RE MWD BUDGET

SDCWA Misrepresentation/ Suggestion	Metropolitan Response
<p>Claim that MWD has not yet implemented cost-measures in response to the pandemic</p>	<p>✓ <b>Already implemented</b></p> <p><b>Fall 2019:</b> Metropolitan had already worked to reduce various areas of the budget, even in light of significantly reduced water sales projections, reducing necessary <u>overall</u> rate increase to <u>5% (CYs 2021 and 2022)</u>.</p> <p><b>April 2020:</b> Metropolitan reduced <u>overall</u> rate increases from <u>5% → 3% (CY2021)</u> and <u>5% → 4% (CY2022)</u> with the following revisions:</p> <ul style="list-style-type: none"> <li>• Cost cuts: <ul style="list-style-type: none"> <li>○ Freeze all non-essential employee travel and director inspection trips</li> <li>○ Curtail hiring to only essential positions</li> <li>○ Slow expenditures on replacement equipment</li> </ul> </li> <li>• Reduce Untreated Water Sales Projections: <ul style="list-style-type: none"> <li>○ 50 thousand acre-feet of untreated water sales projections were shifted to projected treated water sales as a result of the impact Per-and Polyflounalky Substance (PFAS)</li> </ul> </li> <li>• Projections: <ul style="list-style-type: none"> <li>○ CIP expenditure were reduced by \$25 million in FY 2020/21</li> <li>○ PAYGO funding was reduced \$25 million in FY 2020/21</li> </ul> </li> </ul>
<p>MWD should maintain current staffing level and reduce succession planning to save \$10 million</p>	<p>✓ <b>Already implemented</b></p> <ul style="list-style-type: none"> <li>• Metropolitan’s budget already proposes to maintain current staffing levels</li> <li>• Already curtailed hiring to essential positions in April</li> <li>• Metropolitan’s budget includes costs for 1907 positions, which is estimated to cover actual filled positions <u>and</u> all work necessary to be performed when positions are unfilled and additional work that may be necessary → standard budgeting practices</li> <li>• SDCWA’s assumptions do not follow standard budgeting practices <ul style="list-style-type: none"> <li>○ SDCWA confuses “vacancy factor” with “unfilled position rate;” there is no money in Metropolitan’s budget for phantom positions, as SDCWA suggests.</li> </ul> </li> </ul>
<p>MWD should reduce travel and defer vehicle replacement to trim \$3.6 million</p>	<p>✓ <b>Already implemented</b></p> <ul style="list-style-type: none"> <li>• \$3.9 million in reduced travel and deferred vehicle replacement, in addition to employee travel and director inspection trip frozen in April</li> <li>• Additional \$6.8 million of O&amp;M cost- containment measures are proposed.</li> </ul>
<p>MWD should use storage reserves and minimize supply program expenditures to save \$16 million</p>	<p>✓ <b>Already implemented</b></p> <ul style="list-style-type: none"> <li>• Metropolitan has already reduced its supply, storage, and transfer programs to the extent operationally possible.</li> <li>• Metropolitan will continue to use diligence in managing water resources and operations to balance the regional needs and meet critical demands as they arise.</li> </ul>

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MWD [may] reduce its transportation rates (System Access and System Power) ... by \$15 per acre-foot	<p> <b>Incorrect</b></p> <ul style="list-style-type: none"> <li>• Metropolitan <u>cannot</u> arbitrarily set rate components; it follows cost of service (COS)               <ul style="list-style-type: none"> <li>○ Arbitrarily reducing transportation-related rates does not follow COS</li> <li>○ Would necessarily shift transportation costs to other rate components, such as supply, without any reasonable basis; reasonableness is legally required</li> </ul> </li> </ul>
MWD should factor in \$8 million increase in tax revenue	<p> <b>Unrealistic Assumptions</b></p> <ul style="list-style-type: none"> <li>• Additional revenue is not guaranteed               <ul style="list-style-type: none"> <li>○ It is an estimate</li> </ul> </li> <li>• Delinquency rates may increase               <ul style="list-style-type: none"> <li>○ Assumed property tax payment delinquency rate is <u>0.5%</u>, which is much lower than during recent economic downturns (e.g., 2011 delinquency was <u>15-17%</u>)</li> </ul> </li> <li>• SDCWA itself points out negative economic impact:               <ul style="list-style-type: none"> <li>○ “The pandemic has also crippled our regional economy, with many of our citizens out of work and struggling to pay housing, food and medical costs.”</li> </ul> </li> </ul>
MWD can save \$15 million by managing State Water Project costs	<p> <b>Unrealistic and Arbitrary Assumptions</b></p> <ul style="list-style-type: none"> <li>• Metropolitan does not budget arbitrarily and needs indications from SWP regarding costs and deliveries.</li> <li>• Reduction in SWP costs will continue to be monitored and is factored as part of savings to offset reduction in water sales revenue.</li> </ul>
SDCWA’s claim that its suggestions would not have any material impact on service.	<p> <b>Ignores Current Metropolitan Financial Conditions</b></p> <ul style="list-style-type: none"> <li>• Debt-service and fixed coverage ratios are already below target</li> <li>• Demand Management is already being funded by reserves from Water Stewardship Fund</li> <li>• Lowest water sales in nearly 40 years</li> <li>• Reserves continue to trend downward</li> <li>• Credit ratings must be maintained at high levels to preserve low-cost borrowing capability for future projects</li> <li>• Replacement &amp; refurbishment of Metropolitan system is essential to continue service</li> <li>• All foregone rate revenue will necessitate higher rates and borrowing costs in future</li> </ul>