

September 13, 1994

Comments to the Metropolitan Water District Board of Directors.

I recently reviewed the financial statement of the Metropolitan Water District (MWD) for fiscal year 1993-1994. I was appalled to find that the MWD had realized a net income of more than 321 million dollars. This hardly seems to conform to paragraph 4201 of the MWD administrative code titled "Mission Statement" which says, "The mission of the MWD of Southern California is to provide its service territory with adequate and reliable water to meet present and future needs in an environmentally and economically responsible way."

If we consider the MWD's net income as a percentage of gross income from the sale of water and include stand-by charges, power recoveries and net tax revenues, it amounts to 42.1%. A margin of profit that any private purveyor would look at with envy and one that is unconscionable for a public agency. Certainly, it can't be described as economically responsible.

After reviewing the 1993-1994 statement, knowing that the MWD had raised rates again, I requested and received a copy of the 1994-1995 proposed budget. It came as no surprise when I received a cash basis budget so that there was no forecast of net income and staff could show that expenditures exceeded income.

It is inconceivable to me however that an operation which appears to be as sophisticated as the MWD would utilize other than an accrual basis budget when planning future expansion and setting rates. I would appreciate a copy of such a budget for 1994-1995.

Allow me to quote your own auditors Peat Marwick from a letter accompanying the audit of the 1992-1993 MWD financial report. "As discussed in note 1, the accompanying statements of cash and investments and cash receipts and disbursements present a summary of cash activity of the District prepared on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Such statements are not intended to present fairly the financial position or results of operations of the District in conformity with generally accepted accounting principles".

It has to make one think that funds such as pay-as-you-go and rate stabilization are nothing more than an attempt to confuse the public and perhaps many of your own board members as to the financial condition of the district.

Would the board prior to 1993-1994 have made a conscious decision to extract 300 million dollars from the Southern California economy unnecessarily otherwise? Would they have made a conscious decision

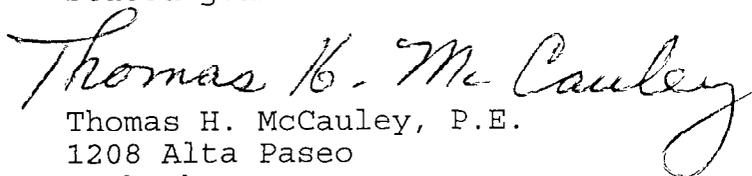
to finance expansion with large sums of net revenues rather than borrowed money at a time when interest rates were at or near an all time low?

Why should the citizens of Southern California allow the MWD to continue to charge usurious rates for water? The public would be better served by a private purveyor that is regulated by the state similar to the way it regulates private electric utilities. I ask you, who represents the public when the MWD decides to raise rates?

To make matters worse, water customers in many communities have been caught in a trap. Typically these communities collect the bills they receive from the MWD as part of the local rate structure commonly referred to as a pass-through. City Council's never have to address MWD rate increases nor suffer the political flak that might accompany them. Then to add insult to injury the local utility manager in Burbank where I live ramps up the MWD rate increase in an attempt to conceal its true impact on the cost of water.

If the MWD continues to extract margins of profit from the public such as they did in 1993-1994 the 5 billion dollar Domenigoni project could be paid for in 12-15 years. A project with a useful life of 100 years or more. It is also entirely possible for the MWD to continue to raise rates thereby affecting consumption until the reservoir is of limited value.

It is my opinion that the level of net income realized by the MWD in 1993-1994 is not only unconscionable, but also indefensible and that the MWD has totally lost sight of one of its most important stated goals.



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