

COMMENTS TO THE MWD BOARD ON OCTOBER 11, 1994

After my appearance at last months board meeting Rev. Stamper from Burbank appeared before the City Council and referred to my attempt, as well as a local columnists, to call attention to your excessive margins as a cruel and calculated hoax. He then tried to make the 321 million dollar net income realized by the Metropolitan Water District (MWD) in 1993-1994 go away. He has suddenly become interested in accrual basis accounting. The fact that the MWD utilizes both cash and accrual basis accounting appears to be confusing him.

This does not negate the fact however that in fiscal 1993-1994 utilizing accrual basis accounting the MWD realized a net income of 321 million dollars. It is the reason for the qualifying statement by your auditors Peat Marwick in their letter to the board accompanying their annual audit which indicates that cash basis accounting statements commonly utilized by the MWD are not intended to present fairly the financial position or results of operation of the district in conformity with generally accepted accounting principles.

I am unaware of any State or Federal regulatory agency which allows utilities subject to their control to keep their accounts on other than an accrual basis. The uniform system of accounting prescribed for public utilities subject to the Federal Power Act is an accrual basis accounting system. Water utilities subject to regulation are required to utilize accrual basis accounting systems as well.

I hope that we can all agree that financial statements based on accrual accounting are more indicative of the financial condition and operating results of the MWD than those based on cash accounting. This is substantiated by your own auditors remarks and those of other financial experts. It should not be a major hurdle then to acknowledge the 321 million dollars of net income realized by the MWD in 1993-1994 as the most accurate measure of operating results available to us. Once we have cleared that hurdle we may then engage in an intelligent debate as to what to do about it.

It is interesting to note that public agencies such as the MWD routinely escape the close scrutiny imposed on private corporations by their investors who are interested mainly in returns on their investment. It tends to make public agencies very complacent and very conservative as they enjoy huge cash reserves and excessive operating margins much like the MWD. This is not a hastily formed opinion on my part but is based on more than forty years association with public and quasi-public agencies.

Let me remind you however where those huge cash reserves and excessive operating margins come from. Not from the pockets of wealthy investors as in the case of private corporations but from the pockets of rate-payers most of whom are not as well heeled as you.

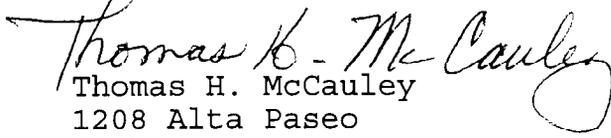
I can tell you that as a long time utility employee I have personally knocked on the doors of customers with delinquent accounts and ultimately disconnected service to many of them when attempts to collect those accounts failed. It is not a pleasant experience.

You of course are insulated from that unpleasantness by being twice removed from the people who pay the bills and the public in general. Not only are you physically removed from the public in your well appointed quarters here on Grand Avenue in downtown Los Angeles but the environment in which you operate is very intimidating to them. I don't imagine that many of you worry about being overrun by irate water users who find their way to your offices. As evidence of your insulation from the public's scrutiny a 204.1 million dollar write-off taken by the MWD for two failed geo-thermal plants never even made a story in area newspapers.

I can assure you that the MWD's financial condition has piqued my interest and you will be subject to closer scrutiny in the future. I have also contacted citizens groups who have expressed concern over rising utility rates in an attempt to gain support in restoring control over a public agency gone awry. There remains the possibility of rate relief through the courts. I remind you of what happened to the Metropolitan Transit Authority (MTA) recently and the possibility of a legal challenge of your rates.

If all else fails legislative action remains. Maybe we can find a regulatory agency that would like to control you.

In the meantime, I would suggest that in your own best interest you take Rev. Stamper aside and appraise him of the districts true financial condition before he embarrasses himself further.


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