

**COMMENTS TO THE MWD BOARD OF DIRECTORS
AT RATE HEARING ON
FEBRUARY 14, 1995**

The Metropolitan Water District charges too much for water. That statement is irrefutable. And now you propose to raise rates even further.

Either you fail to recognize or refuse to acknowledge the true financial condition and operating results of the District.

In your briefing documents you have projected revenue and expenses for 10 years on a cash basis only. Your annual budgets continue to be prepared on a cash basis only. It leads me to believe that the only reason an annual operating statement and balance sheet is prepared on an accrual basis is because your auditors insist on one to protect themselves. You certainly don't use them to make any management decisions.

In a letter dated October 6, 1994 from General Manager Wodraska to myself he states, "As you point out we do not use the accrual method of accounting to set rates because our main concern is that we have enough cash flow to support our operations". This statement comes from the manager of an agency that had \$1.3 billion in cash and investments as of June 30, 1994. I am surprised that he would put such a statement in writing. It is an utterly ridiculous and totally indefensible approach to rate-making. Perhaps he and the board should show some concern for those who are saddled with your rates.

I would be extremely interested in any opinion you might have from a reputable financial adviser or even your own auditors as to the need for additional revenue at this time.

Are we to believe that the MWD system will be left unimproved, improperly maintained and from time to time on the brink of insolvency if a rate increase is not adopted? These dire predictions were made by none other than Chairman Foley in a letter to the editor published in the Burbank Leader November 9, 1994.

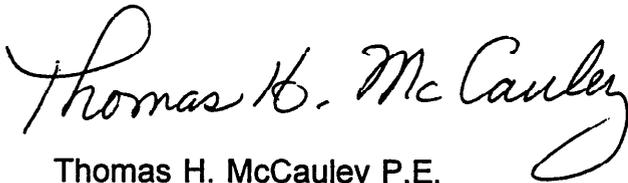
It hardly seems possible for a system that realized a net income in 1993-1994 of \$321,192,000 and then raised rates 6.5% for 1994-1995. Mr. Foley's statement is simply ludicrous.

What a sad commentary on the ability of the MWD management and board to understand and handle the finances of a billion dollar a year utility. This staff and board seem intent on extracting 100's of millions of dollars from the Southern California economy in excess of what is necessary to provide a safe and adequate water supply to this region.

Ladies and gentlemen, please don't take my word for it, but ask any reputable independent financial adviser as to your need for additional revenues at this time. Your debt service coverage is several times more than is necessary to satisfy your bond covenants. Your net income paid for 83% of your capital improvements in 1993-1994 not 20% as appears to be your stated goal. How can the public take you seriously, when you say you need a rate increase.

You continue to boast about the high ratings you receive when you issue debt. Those high ratings are the result of the strangle-hold you have on your member agencies regarding charges you can impose on them in addition to the fact that your present rates generate too much net income. You have accrued almost \$219 million in net income in the first 5 months of fiscal 1994-1995. How could you even think of raising rates again?

Ladies and gentlemen of the board you are charged with the public trust. It should not be taken lightly. The recent Orange County fiasco demonstrates what can happen when boards such as this become too smug. Remember it is the public at whose pleasure you serve.



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