

April 2, 2020



Ms. Gloria D. Gray, Chairwoman of the Board  
Mr. Jeffrey Kightlinger, General Manager  
The Metropolitan Water District of Southern California  
700 North Alameda Street  
Los Angeles, CA 90012-2944

**Subject: Proposed Rates for 2021 and 2022 and Biennial Budgets for Fiscal Years  
Ending 2021 and 2022**

Dear Chairwoman Gray and General Manager Kightlinger:

Eastern Municipal Water District (EMWD) fully supports the Metropolitan Water District of Southern California's (MWD's) rate policy objectives to provide rate certainty, predictability, stability, and affordability for customers. We are also committed to supporting MWD in making reasonable rate adjustments to achieve these goals.

Currently, MWD staff have proposed increasing the Full Service Treated Rate by 5% in 2021 and 2022, while raising the Full Service Untreated Rate by 3% and 4%, respectively. MWD member agencies and retail ratepayers will be facing unprecedented financial hardships as a result of the likely economic fallout from the novel coronavirus (COVID-19). Additionally, PFAS/PFOA regulatory requirements have adversely impacted many agencies' local groundwater availability, requiring the purchase of additional higher-cost imported treated water. Given these significant financial challenges, MWD and its member agencies should consider any and all means to minimize financial impacts on our customers through rates and charges.

While we agree that with currently forecast sales, MWD should continue with modest rate increases to cover inflationary-related expenses, in light of the extraordinary conditions that have emerged since the development of MWD staff's original rate recommendations, lower rate increase alternatives must be considered. We believe opportunities are currently available to reduce the proposed rate increases and better balance the increases between treated and untreated rates, while fully maintaining MWD's financial integrity, staffing and service levels.

In this regard, we suggest that at the April 14, 2020, Board of Directors meeting, staff be directed to work in consultation with the member agencies to return to the Board at its May meeting with one or more alternative rate proposals that will result in Full Service Rate increases for both Treated and Untreated water of 3% or less.

Board of Directors

Ronald W. Sullivan, *President* Philip E. Paule, *Vice President* Stephen J. Corona Randy A. Record David J. Slawson

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For context, to achieve 3% Full Service Treated and Untreated rate increases for each of the two successive years, MWD staff would need to reduce the each year's proposed \$1.9 billion budget by approximately \$20 million, or approximately 1.0%. In developing alternative rate proposals to achieve this objective, we respectfully request that MWD staff analyze and consider implementation of a combination of some or all of the following:

- Over the next two years, shift from a 60% Pay Go to a 50% Pay Go (or less) for certain capital expenditures, and take advantage of bond financing rates that are at or near historic lows. The additional debt service costs at the 50% Pay Go level would translate to an estimated \$1.5 million in annual expenses. This \$1.5 million increase relative to MWD's annual debt service of \$290 million is minimal. Although over the past two weeks some instability was present in the municipal debt market, it appears rates have now stabilized at historically low levels providing an excellent opportunity to consider additional CIP debt financing.
- Reduce the Treatment Surcharge portion of the proposed rate. This could be accomplished while adhering to cost of service principles by bond financing a proportionately greater portion of the \$77.5 million Treatment Plant Reliability CIP along with other treatment infrastructure.
- Defer beyond the two year rate window other non-critical portions of the \$450 million Biennial Capital Improvement Program to further reduce the remaining Pay Go burden on the rates.
- Use additional rate stabilization reserves. Total reserves are currently at \$460 million, or \$185 million above the estimated \$275 million MWD self-imposed minimum reserve target.
- Suspend or reduce Demand Management Program funding. Although the Water Stewardship Charge (WSC) component of MWD's rates is proposed to be excluded over the next two years, suspension or reduction of Demand Management Program funding and re-designation of those funds under MWD's current State of Emergency to core operations would offset other revenue requirements. In subsequent years, the appropriateness of MWD providing on-going Demand Management Program incentives with the continuing trend of lower demands and sales should also be considered.

As a final note, we believe implementation of some or all of the options noted above would achieve the target 3% or less rate increase objective while still providing financial stability for MWD with no impact on MWD's projected 1.5X Debt Service Coverage requirements or AAA credit rating.

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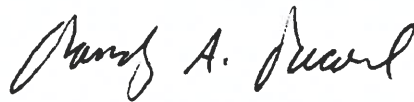
MWD and its member agencies are facing unprecedented times. The magnitude of the negative financial impacts on our customers and their ability to pay their water bills is unknown, but likely to be significant. MWD has always adhered to a regional approach where burdens – whether from water shortages or in this case, from a financial downturns – are a shared regional responsibility. Our agencies will be shouldering a significant portion of this burden with our customers and believe it is incumbent on MWD to do what it can to provide its support by minimizing rate increases.

We appreciate the opportunity to work with you on this important effort to help Southern California ratepayers during this extraordinary period in our history. If you have any questions, please contact our General Manager at 951-928-6130 or at [jonesp@emwd.org](mailto:jonesp@emwd.org).

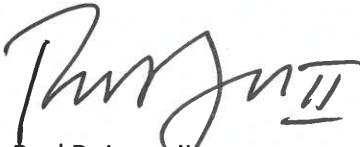
Sincerely,



Ronald W. Sullivan  
President



Randy Record  
Board Member and MWD  
Representative



Paul D. Jones II  
General Manager

Cc: MWD Member Agency General Managers  
Board Members, MWD  
Katano Kasaine, MWD