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September 9, 2020

Mr. Jeffrey Kightlinger
General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Item 8-1: Impacts of the COVID-19 crisis on Metropolitan's fiscal years 2020/21 and 2021/22 biennial budget and rates and charges for calendar years 2021 and 2022

Dear Mr. Kightlinger:

The undersigned group of Metropolitan Water District (Metropolitan) member agency general managers appreciate the efforts of Metropolitan staff to analyze the financial and operational impacts of the COVID-19 crisis on Metropolitan and its member agencies, and to develop cost containment and other recommendations for consideration by the Board of Directors. We support the staff recommendations presented in Board Action Item 8-1 and believe they represent a measured approach that will control costs, maintain Metropolitan's financial stability and avoid excessive future rate increases and associated impacts on member agencies and the economic recovery.

As experienced water professionals, we understand the challenges Metropolitan faces in trying to seek further cost reductions while continuing to fund its essential services and maintain its credit rating during a time of declining revenues. Indeed, many of Metropolitan's wholesale and retail agencies have been compelled to respond to this crisis by implementing significant cost-containment measures and reconsidering existing or proposed rate increases. Our agencies fully understand the consequence of making difficult and prudent financial decisions during this challenging time.

The proposed cost-containment actions Metropolitan staff has as outlined in Board Action Item 8-1 are responsive to financial challenges associated with both COVID-19 and lower water sales. In particular, the recommended Operations and Maintenance cost containment measures that have the potential to realize approximately $11.7 million of savings in Fiscal Year (FY) 2020/21 combined with a review of PAYGo funding for FY 2021/22 at the Board's mid-budget cycle review are appropriate and effective. Balancing the use of reserves with adjustments to the PAYGo program through additional debt financing at historically low interest rates provides an important budget tool for Metropolitan to use to moderate future rate increases.

Although we support the aforementioned cost containment strategies, we do not believe reducing the approved rates for calendar years 2021 and 2022 is financially prudent or necessary. During Metropolitan's most recent budget process, these approved rates were already reduced in an effort to minimize impacts to member agencies while providing an essential level of financial stability for Metropolitan. The need to implement further rate reductions at this time is not warranted by data collected from the member agencies regarding COVID-19 related impacts and would unduly impact Metropolitan when its water sales are already at a 40-year low. In fact, **unnecessarily reducing rates now will likely compel much larger rate increases in upcoming years** at a time when the region is attempting to recover from the long-term economic impacts of the COVID-19 pandemic. Additionally, two years from now during Metropolitan's next biennial budget process, there will already be significant other factors putting upward pressure on Metropolitan's rates. These include the adoption of a Demand Management cost recovery alternative; the need to adjust revenues as the result historic low water sales; the mitigation of recent expenditures deferrals; and the implementation of programs or projects the Board may consider essential as a result of the 2020 Integrated Resources Plan.

We firmly believe, because of these reasons, that Metropolitan should not consider a further reduction in rates at this time. Rather, we recommend that Metropolitan continue to track COVID-19 impacts to the member agencies with a focus on retail payment delinquencies, and monitor water demands, sales and expenditures and prepare additional cost-containment measures, as needed, for the Board's FY 2021-22 mid-cycle budget review.

In closing, we appreciate the challenges Metropolitan is facing and the need to carefully balance cost-containment measures and potential revenue shortfalls. Implementing the staff recommendations presented in Board Action Item 8-1 combined with maintaining steady and predictable rates will best serve the member agencies' needs while ensuring the financial health of Metropolitan.

Sincerely,

Cesar E. Barrera, P.E.
Deputy Public Works Director
Water Resources Manager
714-647-3387
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cc: Gloria D. Gray, Chairwoman of the Board of Directors
Jesus Quiñonez, Chairman of the Finance and Insurance Committee
MWD Board of Directors
Katano Kasaine, Chief Financial Officer
Reading file