February 16, 2024

Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, California 90012

Subject: Request for Comments on Metropolitan's Proposed Biennial Budget for FY 25/26 (Item 9-4) from February 12, 2024 Committee Meeting

Dear Chairman Adán Ortega, Director Tim Smith, and General Manager Adel Hagekhalil:

The City of Los Angeles appreciates the Metropolitan Water District of Southern California’s (Metropolitan’s) efforts towards the development of its FY 25/26 biennial budget and the opportunity to comment on the proposed biennial budget and alternative rate options. We acknowledge the efforts that Metropolitan staff have made to reduce costs; however, it is imperative that the Metropolitan Board uphold its fiduciary duty by making fiscally responsible, informed decisions to protect the interests of ratepayers and customers.

The City of Los Angeles is not supportive of proposed alternative rate options #2 and #3. Hiding the true cost of water services from the end user by applying those costs to property taxes as proposed by alternative rate option #2 and eliminating conservation in option #3 dis-incentivize customers from water use efficiency. The proposed conservation alternative rate option is essentially a one-time resource being used to cover previous year’s budget shortfalls due to poor planning and assumptions. Metropolitan should not be using one-time or short-term resource strategies to cover its budget gaps.

The City of Los Angeles is not supportive of proposed alternative rate option #3. Reducing conservation for a few years provides a short-term solution to a longer-term problem in which Metropolitan is not accurately recovering its costs. The City of Los Angeles, with the support of Metropolitan, has been a leader in conservation for the last 50 years. Los Angeles’s conservation efforts and achievements have allowed Metropolitan and the Southern California region to continue to grow. Without conservation and local resources (such as the Los Angeles Aqueduct), Metropolitan would not have been able to support a growing region and store as much water as they have over the last several decades. Metropolitan should continue funding for conservation and local resources to support the State’s goals for water use efficiency and sustainability.
The City of Los Angeles is not supportive of proposed alternative rate option #2. Asking customers to pay a larger portion of the water bill through property taxes also dis-incentivizes member agency’s local resources development. As costs shift onto property taxes, member agency investments in local resource development will not realize the full financial benefit associated with those local supplies. Increasing ad valorem property tax levies will disproportionately impact all ratepayers - homeowners, renters, as well as businesses. These property tax increases will negatively impact every homeowner and be passed on as increased rent for residential and commercial properties, effectively raising the cost of housing for every citizen in every disadvantaged community across every city throughout Metropolitan’s service territory.

Metropolitan staff has explained that property tax is used for ongoing State Water Contractors fixed charges; however, there is no clear explanation of what these fixed charges are, which State Water Project (SWP) initiatives property taxes will pay for, and why SWP costs continue to increase year after year. Metropolitan staff need to clearly identify expenditures to be covered by property tax revenue. Proposals that increase reliance on fixed charges should be part of a business model discussion before being proposed in the budget.

The history of property taxes levied by Metropolitan is enlightening. Prior to fiscal year 1990-91, Metropolitan’s Board of Directors were required to achieve an 80% majority vote and make a finding that there existed a “fiscal emergency” which required a property tax rate increase. This restriction was deleted commencing with the 1990-91 fiscal year and replaced with language to limit the levy of any ad valorem property tax, except upon specified findings of the Board of Directors following a hearing, to the composite amount required to pay Metropolitan’s principal and interest on general obligation bonded indebtedness and its share of existing Burns-Porter Bond debt service. Both of these bond obligations have been paid off. Clearly the original legislative restriction of “fiscal emergency” has not been met, and now the staff is telling the Board to totally disregard that original legislative intent and instead interpret the current “essential to the fiscal integrity of the District” language so broadly as to allow the Board to raise property taxes as it sees fit based on a budget that could easily be met with a combination of cost cutting measures and/or water rate increases. However, now the Metropolitan Board of Directors is considering doubling or nearly tripling their property tax levy with the intent of raising hundreds of millions of dollars, much of this from poor and disadvantaged community property owners.

The City of Los Angeles is also not supportive of Metropolitan increasing revenues to offer member agencies discounted “replenishment” programs as proposed in the Supplemental Water Management (SWM) Program, previously known as the “Surplus Water Management Program”. This program is not equitable. As currently developed, the SWM program provides even greater incentives than any existing program - up to $800 per acre-foot (AF), which is essentially equal to the full-service untreated rate this year.
Metropolitan is here to provide collective regional benefit, and it is Metropolitan's role to manage wet year supplies that are currently unmanaged. Metropolitan should, and must, do everything that it can to manage their supplies for the entire region. Metropolitan's goal should be to manage its surplus supplies to benefit the whole and seek regional storage opportunities that can directly benefit all agencies, not just the few who have managed groundwater basins. There is more than 1.6 MAF storage capacity still available and no need for a discounted groundwater replenishment program to increase storage. Furthermore, there are already other groundwater replenishment programs in place to manage surplus supplies. For example, the Cyclic Cost Offset Program (CCOP) was just modified to increase participation.

Metropolitan’s current rate structure has been in place for over two decades and has afforded Metropolitan one of the highest bond ratings of any regional wholesale water provider in the nation. At the same time, Metropolitan’s volumetric rates and investments in conservation and local resources have made Metropolitan a leader in sustainability in the face of a changing climate. The Los Angeles delegation encourages Metropolitan to continue to explore ways to establish fair and equitable rate increases that cover their full cost-of-service. We look forward to working with Metropolitan during the development of this biennial budget.

Thank you,

Board Directors representing the City of Los Angeles

Carl E. Douglas
Matt Petersen
Nancy Sutley
Miguel Luna
Tracy Quinn

cc: Mohsen Mortada, Chief of Staff
    Margie Wheeler, Executive Strategist
March 8, 2024

The Metropolitan Water District of Southern California
700 North Alameda Street
Los Angeles, CA 90012-2944

Re: Comments on MWD’s FY 24/25 and 25/26 Budget & Business Model Considerations

Honorable Chair Ortega and Directors,

As Los Angeles Waterkeeper has been tracking and participating in the recent board discussions regarding The Metropolitan Water District of Southern California’s (MWD) biennial budget, it has become apparent that discussions surrounding the near-term 2-year budget are dovetailing with planned deliberations regarding broader long-term reform of the agency’s overall business model. For example, during the February 27th budget workshop, several board members voiced support for the ad valorem property tax rate increase outlined in both “Alternative 2” and “Alternative 3”, which is something we expect will be vetted more thoroughly during MWD’s business model deliberations expected to take place later this year.

After hearing staff and board members express concerns about decreases in revenues from lower water sales, we agree that it is becoming increasingly clear that MWD needs a new business model that will allow the agency to survive and thrive in our new climate reality that must prioritize lower water sales through conservation/efficiency and reduced water imports in favor of resilient local supplies.

LA Waterkeeper has been conducting its own research on what a business model could look like to position MWD for this new reality. We retained rate expert Sanjay Gaur and his firm – Water Resources Economics – to undertake a thorough assessment and prepare a technical memorandum that outlines recommendations for a reformed business model. As part of this effort, Water Resources Economics has interviewed a number of MWD board members and staff, as well as several outside experts in the field of water rates and business model reform. In January, we convened a small group of these experts for an all-day discussion on this issue at our Downtown Los Angeles office.

While still in the process of compiling this research into a technical memorandum that is scheduled for release in April, we can report that many of our initial findings are aligned with much of what we have been hearing from members of the MWD board – namely that significant changes to MWD’s business model are no longer an option, but a necessity. While we appreciate that MWD has explored business model reform previously, the agency must now go beyond deliberations and actually adopt changes this year if it is going to be able to maintain its long-term fiscal health while promoting greater conservation and local water supply development.

For example, a high variable revenue model may have been successful in the past. But the effects of climate change and the drought-to-drench phenomenon are already impacting MWD’s water sales and the overall functionality of its current business model, which is too reliant on water sales based mostly upon variable imported water. This may necessitate increased fixed revenues through the ad valorem
property tax, combined with changes to the tiered pricing of water so that MWD can disincentivize wasting water while also ensuring that underserved communities can access water affordably.

With so much at stake for MWD’s long-term financial health, we urge the agency to convene a group of experts immediately after the current budget adoption process concludes to tackle the very difficult and fundamental business model decisions that must be considered and made by this board. By that time, the technical memo LA Waterkeeper has commissioned will have been released, and we ask that we be included in any such convening.

At the same time, it will be critical for MWD to meaningfully engage impacted communities throughout the agency’s service territory to explore how a reformed business model will affect them. LA Waterkeeper has also recently hosted a workshop with nearly 30 local nonprofit and community-based organizations as well as tribal and labor representatives interested in engaging more with MWD (a convening that we are very appreciative included significant engagement from the agency). Ensuring that MWD adopts a reformed business model that will create more stable and affordable water rates (particularly for at-risk residents) while also promoting more local, resilient water supplies (especially those utilizing nature-based solutions) was identified as a top priority for this group and the communities they represent.

While awaiting a more robust discussion about business model reform, it is imperative that MWD pass a biennial budget that steers the agency toward a more resilient water portfolio. Even during these challenging times, we strongly encourage the agency to continue – if not expand – its conservation program with an eye toward true landscape transformation and direct install turf replacement to ensure equitable implementation of such projects. MWD should also continue its investment in Pure Water Southern California, which is likely the agency’s biggest and most important opportunity to obtain new sources of local water, while also looking to expand its investment in multi-benefit nature-based stormwater capture and reuse solutions throughout its service territory.

If the board incorporates the above recommendations into its decision-making, it will help push MWD in the right direction and help ensure that the agency’s business model incorporates forward-thinking, long-term fixes. We look forward to hearing more of the board’s discussions in its upcoming meetings, and we also look forward to making our memorandum publicly available in April. Thank you for your consideration.

Sincerely,

Justin Breck  
*Climate Resilience Fellow*

Bruce Reznik  
*Executive Director*

Cc: Adel Hagekhalil, General Manager