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April 8, 2018

Gary Breaux, Assistant General Manager and Chief Financial Officer
Marcia Scully, General Counsel
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0154

RE: April 9 Finance and Insurance Committee Meeting and April 10 Board Meeting, Agenda Item 8-1: Adopt CEQA determination and approve the proposed biennial budget for fiscal years 2018/19 and 2019/20, revenue requirements for fiscal years 2018/19 and 2019/20, and ten-year forecast; adopt resolutions fixing and adopting the water rates and charges for calendar years 2019 and 2020; and adopt the resolution finding that continuing the suspension of the tax rate limitation in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem property tax rates for fiscal years 2018/19 and 2019/20 is essential to Metropolitan's fiscal integrity

Response to your April 4, 2018 letter

Dear Mr. Breaux and Ms. Scully:

Thank you for your response to my March 21, 2018 letter. I request this letter be made part of the administrative record of the MWD proceedings identified above, at the April 9 Finance and Insurance Committee meeting and April 10, 2018 Board meeting.

The Water Authority's General Counsel, Mark Hattam, has responded today to a separate letter the two of you authored on the subject of the 2018 budget and proposed rates. I will not repeat the content of that letter here, but since there is some overlap, incorporate it by reference on the topics discussed therein (rate model, ad valorem taxes and offsetting benefits).

I. The data MWD has provided to board members on the budget and proposed rates and charges is insufficient to allow board members to meet their fiduciary duties

This issue has been addressed generally in Mr. Hattam's letter. However, I would add that, as a member of the MWD board of directors, I believe I am entitled to have access to the information I have requested, including the rate model, if it would assist me in fulfilling my duties as a member of the board, as I believe it would. MWD often responds in denying director's requests for information that the information is not "customarily" provided by staff, but I do not agree that is an appropriate standard or basis to deny a director's request for information. While I don't believe there is any policy basis for MWD to refuse to disclose this information to its member agencies and public, there is certainly no basis for refusing to provide it to members of the board. If the rates are so complicated that the rate model is required to develop them, I don't understand why you believe board members and the public should be able to sort all of the voluminous data out in less than 30 days without using the very tool MWD's management has developed for this purpose.

II. California WaterFix (capital) cost allocation clarification

I appreciate and understand the explanation you have provided, as well as your update to the 2018 COS Report at pages 78-79 to avoid further confusion. This is an example of a question we could have answered independently with access to the rate model.

III. Staff's interpretation of the board's policy on reserves is nonsensical

Staff's response highlighting the word "targeted" in § 5202 does nothing to change the rest of the content of that section of the Administrative Code or its clear intent. The point I made that you have not addressed is that it was never intended that the budget process would be designed to achieve "targeted" reserves, as it has been in 2018. Your creative reinvention of reality and the history of this code section have improperly converted what was intended as a ***limitation*** on reserves to an ***objective*** of the 2018 budget and rate setting process.

IV. Staff's refusal to provide rate modeling assuming a range of California WaterFix tunnels costs is unreasonable in light of actual facts and circumstances and is placing Southern California ratepayers and taxpayers at great risk

Contrary to your letter, the cost impacts of the California WaterFix discussed on March 27, 2018 have nothing to do with either board option now being considered. It has been known for some time that the option previously approved by the board could not be implemented due to lack of participation by other state and federal contractors. It is also nonsense to suggest that WaterFix costs will not impact the current budget period. Your letter does not respond to my questions or request for rate modeling.

The MWD staff has not provided the board with sufficient information to assess the likely costs or benefits associated with additional funding of the tunnels. This month's very belated 8-7 board letter includes highly superficial information that cannot possibly serve as the basis of a responsible board decision. Knowing that the Central Valley Project contractors have still not agreed to participate financially, and that the state is recommending a staged approach, we must assume that the financing of a second tunnel will be borne entirely by MWD ratepayers and taxpayers. I would like to hear at tomorrow's committee meeting how this additional obligation will impact minimum reserves during the 2018 biennial budget period and the staff objective to "target" maximum reserve levels, as well as what impact this may have on MWD's credit rating and available borrowing capacity. Given that the CVP contractors have refused to buy in at the price it will cost to build the tunnels, what justification is there for MWD to plan consciously to sell water to agricultural contractors at less than what we know it will cost our ratepayers to develop these water supplies?

V. Failure to reconcile the budget (including 10-year forecast) with the IRP and MWD and member agency Urban Water Management Plans continues to place the region at risk

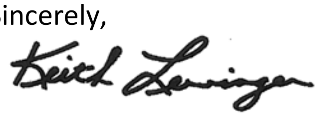
The Water Authority has written numerous letters and provided analyses of the disconnect that exists between MWD's budget and water resource planning processes. We have also highlighted on numerous occasions the risk the region runs of stranding costs due to MWD's refusal to account for local water supply development. Your response does not address the concerns we have expressed. It is also difficult to understand your claim that the 2015 IRP has been "adjusted" for additional permanent conservation achieved as a result of the Governor's 2015 Executive Order (25%), given that the demand now forecasted in 2018 is greater than forecasted in 2016 (2021 is now 1.8 MAF, increased from 1.75 MAF).

VI. MWD's "water transactions" are not declining, but its sales are declining

MWD's continued insistence upon mixing water sales with wheeling transactions distorts not only our financial reporting, but the board's ability to see the big picture, a significant feature of which is that MWD's sales are declining over time. Staff has also attempted to obscure this reality by its recent interpretation that MWD's role is to provide water "insurance" rather than meet reasonably projected supplemental water demand, as it has in past years. MWD's current and projected spending is not necessary to meet actual projected demands of its member agency customers, and is not sustainable.

In closing, though I appreciate the time and effort of your letter, it fails to address many issues, is off point on others, and I disagree with many of the stated contentions.

Sincerely,



Keith Lewinger

cc: Water Authority Board of Directors
Maureen Stapleton, Water Authority General Manager
MWD Board of Directors
Jeffrey Kightlinger, MWD General Manager