



# San Diego County Water Authority

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August 31, 2020

Gloria Gray, Chairwoman  
Metropolitan Water District of Southern California  
P.O. Box 54153  
Los Angeles, CA 90054-0153

## MEMBER AGENCIES

- Carlsbad Municipal Water District
  - City of Del Mar
  - City of Escondido
  - City of National City
  - City of Oceanside
  - City of Poway
  - City of San Diego
  - Fallbrook Public Utility District
  - Helix Water District
  - Lakeside Water District
  - Olivenhain Municipal Water District
  - Otay Water District
  - Padre Dam Municipal Water District
  - Camp Pendleton Marine Corps Base
  - Rainbow Municipal Water District
  - Ramona Municipal Water District
  - Rincon del Diablo Municipal Water District
  - San Dieguito Water District
  - Santa Fe Irrigation District
  - South Bay Irrigation District
  - Vallecitos Water District
  - Valley Center Municipal Water District
  - Vista Irrigation District
  - Yuima Municipal Water District
- OTHER REPRESENTATIVE**
- County of San Diego

RE: Rate relief for all Southern Californians

Dear Gloria,

On behalf of the Water Authority Board of Directors, I am writing to urge you to ensure that MWD staff present specific options for your Board’s consideration in September in order to reduce planned water rate increases for 2021 and 2022. The Southern California region has suffered a tragic loss of life and hundreds of thousands of confirmed cases of coronavirus, with the number growing every day. The pandemic has also crippled our regional economy, with many of our citizens out of work and struggling to pay housing, food and medical costs. The Water Authority Board believes that it is important for all water suppliers, including MWD, to be recognized as part of the solution for Southern California ratepayers at this difficult time.

We are not asking MWD to do anything the Water Authority has not already done. When the pandemic first hit, our General Manager, Sandy Kerl, directed staff to review every dollar in the Water Authority’s adopted biennial budget, in order to reduce or eliminate planned spending to mitigate the proposed 2021 rate increases (like many other agencies, our sales were also down by almost 15 percent). Faced with MWD’s 2021 8 percent rate increase (the actual impact in San Diego County), the Water Authority’s Board of Directors again challenged our General Manager to dig even deeper for potential cost savings. The actions the Water Authority took included, but were not limited to, implementing an agency-wide hiring freeze, deferring equipment replacement, reducing travel and training and deferring CIP expenditures. As the Water Authority’s General Manager, Sandy offered to forego any compensation increase, including a 2 percent cost of living adjustment that our represented employees received; our General Counsel did the same thing. Many of our cities and member agencies have taken similar austerity measures.

By taking the measures described above, the Water Authority was able to reduce our 2021 rate increase to 4.8 percent—3 percent of which is attributable to MWD rate impacts. By comparison, MWD has not yet implemented any cost cutting measures in response to the pandemic.<sup>1</sup> Although the General Manager has described areas in which management is actually reducing spending—for which we are grateful—the budget itself has not been revised so that these measures translate to rate relief. The Water Authority has committed that any and all cost savings and rate relief MWD provides will be passed through directly to our member agencies.

Finally, while MWD often describes rate impacts in terms of “average” rates, it is important now for these purposes to ensure actions that provide real rate relief for real ratepayers—all Southern California ratepayers. MWD’s revised April budget and rate actions mainly benefited treated water ratepayers, by reducing the treated water rate by more than 2.4 percent.<sup>i</sup> One suggestion that would benefit all MWD member agencies, would be for MWD to reduce its transportation rates (System Access and System Power), which all member agencies pay, by \$15 per acre-foot. This change would require slightly more than a 1.3 percent reduction in MWD’s almost \$2 billion budget or about \$24 million in budget cuts, and would reduce the planned untreated water rate increase by 1.9 percent.

It is not our intention to try to micromanage how MWD might best achieve this result; however, the Water Authority’s MWD board delegates have asked me to include the attached list of suggestions you might consider, which total almost \$53 million. You and your staff, of course, may very well have your own and other ideas which we would love to learn. We want to be clear that it also is not our intention to impede in any way MWD’s ability to provide a safe and reliable water supply to its member agencies—to the contrary, we believe these cost savings may be achieved without having any material impact on service.

Paying water bills is only one of the financial burdens our ratepayers are struggling with; but by reducing its rates, MWD will make a very important statement about its commitment to our ratepayers and to playing a key role in helping Southern California navigate through the difficult period that lies ahead.

Thank you and the MWD Board of Directors in advance for your consideration of this important request.

Sincerely,



Jim Madaffer  
Board Chair

Attachment

cc: Water Authority Board of Directors  
Metropolitan Water District Board of Directors  
San Diego County Water Authority Member Agencies  
Metropolitan Water District Member Agencies

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<sup>i</sup> MWD staff presented a revised budget recommendation in April that reduced the planned average rate increases by 2 percent and 1 percent, respectively for 2021 and 2022; however, this was the result of updated treated water sales assumptions, not any reduced spending.

<sup>ii</sup> The untreated water rate was reduced by 0.38 percent; no other rates were reduced.

**Potential MWD Budget Adjustments to Provide Rate Relief to All Southern Californians**

1. Factor in \$8 million increase in tax revenue. In August, the MWD Board approved maintaining the tax rate at the same level it has been at since fiscal year 2013. The supporting board memo stated that in doing so, it would generate about \$148 million in tax revenues, which is \$8 million more than what is planned for in the current budget. The Water Authority's MWD Delegates supported this action so MWD would have additional revenues in order to reduce its rates in September.
2. Maintain current staffing level and reduce succession planning to save \$10 million. MWD could achieve \$10 million in savings through a combination of prioritizing staffing and reducing, or deferring, its succession planning. Fiscal year 2021's salaries and benefit expenditures are \$30 million higher than fiscal year 2020's and also include a \$7 million for "succession planning." Fiscal year 2021 assumes that MWD has a staffing level of 1,865 full time employees (a 2.2 percent vacancy factor has been applied)—which is 7.5 percent higher than MWD's actual staffing level of 1,735 at the end of fiscal year 2019. The \$10 million could be saved by prioritizing hiring and retooling succession planning to avoid overlapping staffing and be of a size and scope more appropriate to the pandemic and economic realities member agencies and sub agencies and their ratepayers are grappling with.
3. Reduce travel and defer vehicle replacement to trim \$3.6 million. MWD has already reduced its travel costs, including suspending the Board's inspection trip program, but these changes have not been incorporated into the budget in order to translate to rate relief. Pandemic travel restrictions and cancellation of conferences and other events are likely to continue through at least the end of 2020, if not longer. MWD could save about \$1.3 million just by reducing its travel budget by 50 percent. It can save an additional \$2.3 million by deferring vehicle and boat replacement. These actions are in step with those taken by the Water Authority and other water agencies and cities in MWD's service area.
4. Save \$15 million by managing State Water Project costs. Since fiscal year 2013, MWD's actual State Water Project contract costs have come in below budget every single year—on average by more than \$70 million annually. Considering 2020's State Water Project allocation is only 20 percent, it is unlikely fiscal year 2021 will experience the 50 percent allocation envisioned in the current budget. MWD could reduce budgeted State Water Project contract costs by a very conservative \$10 million—or more.

Additionally, MWD has not yet authorized funding of Delta Conveyance Project planning costs and, according to MWD staff, may not do so until the end of 2020. It seems reasonable for MWD to reduce the fiscal year 2021 budget for these costs by \$5 million (to \$20 million) to better align with when these costs will actually be incurred.

5. Use MWD's storage reserves and minimize supply program expenditures to save \$16 million. MWD held a historic-high amount in its dry-year storage reserves—3.1 million acre-feet—at the start of 2020. As of June 2020, MWD forecasted that it would only utilize 234,000 acre-feet of this storage to meet demands in 2020—a year with a 20 percent State Water Project allocation. With demands trending downward, it is safe for MWD to continue to rely on its dry-year storage to meet short-term supply gaps, should they even occur, and reduce its supply program expenditures. To put this recommendation in perspective, reducing the fiscal year 2021 supply program budget by \$16 million, would result in it being only \$2.1 million less than it was in fiscal year 2020.