



September 10, 2020

Metropolitan Water District of Southern California
Board of Directors
P.O. Box 54153
Los Angeles, CA 90054-0153

SUBJECT: RATE IMPACTS- CALL FOR ACTION

Board of Directors

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Director of Human Resources

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District Secretary

James B. Gilpin
Best Best & Krieger LLP
General Counsel

Chairwoman and Members of the Board:

Rancho California Water District (Rancho Water/District) is located in Temecula and provides water service to a diverse customer base including domestic, industrial, institutional, and agricultural customers. We serve a population of approximately 150,000 and over 9,000 acres of agriculture. Rancho Water meets its supply needs with a mix of local ground water and imported water purchased through Eastern Municipal Water District (EMWD) and Western Municipal Water District (WMWD), both member agencies of Metropolitan Water District of Southern California (MWD). We purchase both treated water and untreated water, with anticipated total MWD purchases of approximately 41,000 acre-feet, totaling payments of over \$39 million to MWD and placing Rancho Water as a top five retail purchaser of MWD water annually.

The District would like to sincerely thank you for the service and leadership MWD has provided to our region, the state and the nation on water. In March, Rancho Water reached out to you similarly to express our concern with raising rates during the unprecedented period the nation is in due to COVID-19. MWD understood our issues and the issues facing all of the water agencies, and therefore chose to lower their proposed rate increases. The impacts of the pandemic continue to change daily and affect our customers, as well as cause us and other retail water districts to face new challenges. Ensuring our supply is safe, reliable, and affordable for our customers is our priority.

MWD completed a survey to evaluate the financial impacts of COVID-19 on its member agencies during this time. Rancho Water appreciates the effort to receive input from MWD's member agencies, but believes that this survey only provided a limited insight into initial COVID-19 impacts. Much of the financial impact of COVID-19 to Southern Californian water customers, and their retail water districts, is likely to get significantly more severe in the near future when the current MWD rate increases for calendar years 2021 and 2022 would take place. So far, impacts have been heavily mitigated by an unprecedented multi-trillion dollar federal fiscal stimulus, including historic levels of unemployment benefits, PPP loans, and Federal Reserve intervention.

However, the impact and funding for these measures are running out, and the future of further similar level Federal stimulus seem increasingly doubtful, as Congress struggles to find a path forward. Furthermore, the mandated foreclosure and water shutoff moratoriums in the state also present a financial challenge for a significant number of Californians who have ever increasing debts in rent and utility bills only being deferred to be repaid the next couple of years. Lastly, small businesses which create approximately 50 percent of jobs in California, are also facing unprecedented fiscal pressures due to social distancing, outdoor only operations, and other COVID-19 health restrictions, causing thousands of these businesses to close their doors for good or significantly downsize staffing to survive the restrictions. All this calls into question the ability of retail agencies being able to pass on MWD water rate increases during such a difficult time for so many, or put their own financial integrity at risk as the crisis drags on.

This is why Rancho Water's Board took its own proactive action to defer necessary rate increases ranging from 2.5 to 4.0 percent for fiscal year 2021, lowering revenues over \$2 million. These rate increases were almost entirely necessary to pass through the increased rates from MWD. Rate stabilization cash reserves were built up in advance to be able to bridge the remaining deficit that discretionary expense reductions like eliminating travel, deferring non-essential maintenance, and freezing executive pay could not cover. Fortunately, Rancho Water was just this month reaffirmed in its AAA rating from Fitch, as a testament to the rating agency's understanding of the unique time and impacts water agencies face.

Rancho Water respectfully requests that MWD do all it can to lower or defer previously adopted rate increases for calendar years 2021 and 2022 and to take a stand with its fellow agencies across the state that are doing likewise so as to not add to the mounting financial pressures Southern Californians will be facing in the next few years. Again, we appreciate the hard work and changes MWD made already in lowering the amount of their proposed rate increases. We would be happy to engage in a conversation with you to discuss this matter.

Thank you for your consideration.

Sincerely,

RANCHO CALIFORNIA WATER DISTRICT



William J. Wilson
Board President
Rancho California Water District



Jeffrey D. Armstrong
General Manager
Rancho California Water District

cc: Jeffrey Kightlinger, MWD General Manager
Deven Upadhyay, MWD AGM/Chief Operating Officer
Shane Chapman, MWD AGM/Chief Administrative Officer
Paul D. Jones, EMWD General Manager
Eastern Municipal Water District Board of Directors
Craig Miller, WMWD General Manager
Western Municipal Water District Board of Directors

