



June 10, 2013

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

RE: Board Memo 8-1, Mid-cycle Biennial Budget Review and Recommendations for Use of Reserves over Target.

Dear Mr. Kightlinger,

Burbank was disappointed, to say the least, to be informed so late of the rapid accumulation of funds in the Financial Reserve accounts to the tune that \$375 M will have been amassed at the midpoint. This amassing is in excess of the approved Biennial Budget. Furthermore, the total reserves are now forecast to exceed, by \$75 M, the maximum set by policy.

Burbank supported Metropolitan's effort to budget prudently and recover the full cost of service in past budgeting cycles while maintaining the reserves needed to effectively manage the business. However, a surprise of this nature and magnitude is damaging to both our interests. It calls into mind our collective credibility. Burbank relies on MWD's budgets and projections to adopt Burbank's rates, as have all the Member Agencies.

It appears that MWD has missed an important step for good governance. The lack of clear and direct communication as to the current state of MWD's budget and reserves has done real damage to the credibility of MWD management and requires a remedy such as complete and timely quarterly financial reports, including an update in the same simplified graphical format utilized for the budget presentation, provided to all Directors and Member Agency Managers.

A Biennial Budget was to allow for longer term planning and predictability in managing the business. This did not mean that there wouldn't be a mid-course check and correction if warranted. The June Board meeting will be the first opportunity to discuss the staff recommendation to transfer excess reserves to other MWD accounts and to go forward with a 5% rate increase in January 2014, but fails to address the need for a mid-point budget review or course correction when the original budget assumptions are so far off the mark. After successive years of large rate increases, applying a lower rate increase that is supported by current conditions gives much needed relief to customers and provides MWD with adequate resources.

The staff recommendation to approve Option #1- transferring the estimated \$75 M in excess of the unrestricted reserves policy and continuing with a 5% rate increase in January of 2014 - is unnecessary since MWD has more than adequate reserves. More credible, sensible and appropriate policy is Option #2, which reduces the January 2014 rate increase to 3%. However, there is some confusion about Option #2. The staff presentation (June 10, 2013 Power Point to the Finance and Investment Committee)

recommends reducing the transfer of \$75 M in excess reserves by \$28 M and returning the \$28 M to Member Agencies in 2014 while raising rates 5% to achieve an effective rate increase of 3% for that single year. Collecting funds to return them to ratepayers does not build or demonstrate stewardship of the public trust or credibility. By doing so, MWD is effectively imbedding a 5% rate increase in its rate structure. This recommendation is convoluted and seems to say that it is appropriate to over collect and then offer a refund. This is not sound rate making policy. Instead and as an alternative, it is likely that \$75 M could be transferred from the reserves as proposed, raise rates 3%, and adjust sales projected at a realistic 1.8 M Acre-Feet with reserves remaining within the Maximum/Minimum set by policy.

Given the foregoing, it is difficult to support another Biennial Budget cycle unless there is clear demonstration of transparency and communication. The work and effort needed to prepare and present an annual budget appears necessary to achieve a thorough understanding and timely communication of current financial conditions.

In closing, Burbank does not support a 5% rate increase for 2014. The facts simply no longer support it. Intentionally raising rates to later refund the over collection is inappropriate on its face. Regardless of how the Board resolves this current rate matter, Burbank requests that interim financial reporting be implemented on a basis consistent with the format used by staff to present budget and rate recommendations. Such interim financial reporting needs to be done at least quarterly and provided to the full Board of Directors and the Member Agency Managers.

Sincerely,



William O. Mace, Jr.
Assistant General Manager – Water Systems



Ron Davis
General Manager, BWP



Glenn Brown
MWD Director

c: City Manager
City Council
BWP Board