



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

February 14, 2017

Randy Record and
Members of the Board
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: Board Memo 8-1 - Adopt CEQA determination and approve and authorize the distribution of Appendix A for use in the issuance and remarketing of Metropolitan's bonds - OPPOSE

Dear Chairman Record and Board Members,

We have reviewed Board Memo 8-1 and the attachments, and Mr. Breaux' response to our February 8 letter requesting information about MWD sales projections. Mr. Breaux's response, dated February 13, 2017, was transmitted at 8:42 AM yesterday, just prior to the Finance and Insurance Committee meeting scheduled to begin at 9:30 AM (copies of both letters are attached). Staff's refusal to provide this kind of information in a timely fashion to assist review of Appendix A is unacceptable. We OPPOSE Board Memo 8-1 for the reasons described in this letter.

We incorporate by reference all of the comments and objections contained in our delegation's past letters relating to MWD's authorization, execution and distribution of Official Statements in connection with the issuance of bonds. While MWD has from time to time made changes in response to the Water Authority's comments, the letters have raised several substantive issues MWD has not addressed, some of the most important of which are noted briefly below.ⁱ

Sales Projections

We have questioned MWD sales projections in prior letters for a number of reasons, including but not limited to MWD's practice of reporting wheeled water as MWD water sales and, the fact that MWD has neglected to include in its long term water supply projections (IRP, Appendix A or otherwise), the evolving reality of **permanently reduced demand** for MWD water. MWD has current, available information it is consciously choosing to disregard in making its long term sales projections, including placing undue reliance on **historical** numbers that are unlikely to be repeated.

In the current Appendix A, MWD is taking a similar approach, in relying on "average" numbers rather than focusing specifically on information that is readily available to demonstrate that water sales for fiscal years ending 2017 and 2018 are likely to be substantially under budget, potentially by hundreds of thousands of acre-feet (AF) of water sales, due to the current

hydrology and 1.7 million AF (MAF) sales projection the current budget is based on. Mr. Breaux's statement at yesterday's Finance and Insurance Committee meeting that the "averages" used to make sales projections for fiscal years 2017 and 2018 will be reduced to 1.57 MAF and 1.5 MAF, respectively, will have a material impact on MWD's reserves. Moreover, this month's Water Surplus and Drought Management Plan report forecasted member agency "demands" (inclusive of replenishment and Water Authority's wheeled water) of 1.3 MAF and 1.4 MAF strongly suggesting that Mr. Breaux' revised forecast does not go far enough and in fact is not based on currently available information.

Capital Investment Plan

Appendix A states (at page A-45) that the adopted biennial CIP budget for fiscal years 2016-17 and 2017-18 is \$200 million annually. Appendix A also states that the Delta Wetlands are included in the CIP financing plan. At yesterday's Engineering and Operations Committee, a report was provided by staff stating that the CIP budget for the current fiscal year is \$246 million, not the \$200 million actually included in the budget, as described in Appendix A. Staff also reported that CIP expenditures to date are \$212M. If the Delta Wetlands are included in the CIP, and the actual budget number is used, the result is that CIP expenditures to date are \$187 million over budget. This should be disclosed.

Delta Wetlands

The only information provided about this property is the cost of acquiring it. No information is provided about how the property will be used, or, what risks are associated with MWD's ownership. This should be disclosed, even if MWD's position is that there are no risks associated with this property, including risks associated with levee failures.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Elsa Saxod
Director



Fern Steiner
Director

Attachment 1: Water Authority's February 8, 2017 letter RE Board Memo 8-1: REQUEST FOR INFORMATION

Attachment 2: Breaux letter dated February 13, 2017 responding to February 8 Water Authority letter

cc: Jeff Kightlinger, MWD General Manager

ⁱ The Water Authority will provide additional detailed comments on the Appendix A which was substantially rewritten and revised. Contrary to the statement in Board Memo 8-1 that, "substantive areas covered in the disclosure remain largely the same," that is not true. Numerous changes have been made, including many relating to MWD's evolving litigation theories.



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February 8, 2017

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Members of the Board
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MEMBER AGENCIES

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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: Board Memo 8-1 - Adopt CEQA determination and approve and authorize the distribution of Appendix A for use in the issuance and remarketing of Metropolitan's bonds - REQUEST FOR INFORMATION

Dear Chairman Record and MWD Board Members:

We have conducted a preliminary review of Board Memo 8-1 and attachments, presented for Board review in connection with MWD's sale of bonds to the public. We are working with our staff on reviewing these very substantial edits and changes, and will provide detailed comments before next week's Board meeting. In the meantime, we need and request additional information regarding management's current sales projections for fiscal years 2017 through 2021.

The draft Attachment 1 Appendix A states at page A-92:

Water sales were 1.62 million acre-feet in fiscal year 2015-16. Water sales are projected to be 1.67 million acre-feet in fiscal year 2016-17 and 1.70 million acre-feet for fiscal year 2017-18, and 1.75 million acre-feet for fiscal years 2018-19 through 2020-21.

And, at page A-94 of draft Attachment 1 Appendix A:

Water sales forecast in the table above for fiscal year 2016-17 is 1.67 million acre-feet, 25 thousand acre-feet under budget. The water sales forecasts are 1.70 million acre-feet for fiscal year 2017-18, and 1.75 million acre-feet for fiscal years 2018-19 and 2019-21, consistent with biennial budget and ten-year financial forecast.

In order to complete our review of the draft Appendix A, we request MWD provide a copy of the

Chair Record and Members of the Board

February 8, 2017

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MWD water supply purchase assumptions management has made for each of MWD's 26 member agencies in order to compute these projected MWD cumulative sales for the fiscal years ending 6/30/17, 6/30/18, 6/30/19, 6/30/20 and 6/30/21, respectively.

We assume this information is readily available and will appreciate receiving your prompt response by noon, tomorrow (Thursday, February 9) by email to: AChen@sdewa.org. We are copying the MWD staff we assume has this information available in order to expedite a response to our request.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Elsa Saxod
Director



Fern Steiner
Director

cc: Jeff Kightlinger, MWD General Manager
Marcia Scully, MWD General Counsel
Gary Breau, MWD Chief Financial Officer
June Skillman, MWD Manager of Budget and Rates



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

VIA E-MAIL

February 13, 2017

Director Michael T. Hogan
Director Keith Lewinger
Director Elsa Saxod
Director Fern Steiner
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Re: Your letter dated February 8, 2017 requesting information regarding Board Memo 8-1 (distribution of Appendix A for use in the issuance and remarketing of Metropolitan's bonds)

Dear Directors Hogan, Lewinger, Saxod, and Steiner:

This letter responds to your January 8, 2017 letter requesting information in connection with February Board Item 8-1 (distribution of Appendix A for use in the issuance and remarketing of Metropolitan's bonds). Specifically, you quoted statements from pages A-92 and A-94 of draft Attachment 1 to Appendix A, containing water sales figures for fiscal year 2015-16 and projections for fiscal years 2016-17 through 2020-21, and requested "MWD water supply purchase assumptions management has made for each of MWD's 26 member agencies in order to compute these projected MWD cumulative sales for fiscal years [2016-17 through 2020-21], respectively."

Attached please find the table titled "Average Delivery From Metropolitan." The table shows projected average water deliveries by Metropolitan to individual member agencies in each of the fiscal years 2016-17 through 2020-21. The delivery forecasts in the attached table are developed by Metropolitan's Water Resources Management group. The Office of the Chief Financial Officer used the numbers in this table to compute water sales forecasts for the current biennial budget and Ten-Year Financial Forecast adopted by the Metropolitan Board of Directors on April 12, 2016.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

SDCWA Directors
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Due to the wetter than usual hydrology in recent weeks, Metropolitan plans to revise its water sales forecasts down for fiscal years 2016-17 and 2017-18. These changes will be reflected in Appendix A prior to printing and reported to the Board at this morning's committee meeting. Any changes will be circulated to the Board prior to printing for information and review.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Breaux". The signature is fluid and cursive, with a prominent initial "G" and "B".

Gary Breaux
Assistant General Manager/
Chief Financial Officer

cc: Metropolitan Board of Directors and Member Agencies
Metropolitan General Manager Jeff Kightlinger
SDCWA Board of Directors
SDCWA Board Secretary Melinda Cogle

Attachment

Average Delivery From Metropolitan

Fiscal Year Forecast

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--|------------------|------------------|------------------|------------------|------------------|
| City of Anaheim | 19,000 | 19,800 | 19,200 | 18,400 | 18,500 |
| City of Beverly Hills | 10,600 | 11,100 | 10,800 | 10,300 | 10,200 |
| City of Burbank | 13,400 | 13,500 | 13,800 | 14,000 | 14,000 |
| Calleguas Municipal Water District | 104,600 | 105,400 | 107,000 | 104,100 | 100,800 |
| Central Basin Municipal Water District | 60,700 | 60,900 | 60,900 | 64,300 | 65,100 |
| City of Compton | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 |
| Eastern Municipal Water District | 105,100 | 115,300 | 125,800 | 135,100 | 141,100 |
| Foothill Municipal Water District | 9,100 | 9,100 | 9,000 | 8,500 | 8,100 |
| City of Fullerton | 7,200 | 7,600 | 7,300 | 6,900 | 7,000 |
| City of Glendale | 18,600 | 18,800 | 18,700 | 18,100 | 17,500 |
| Inland Empire Utilities Agency | 37,700 | 44,700 | 53,300 | 59,500 | 62,200 |
| Las Virgenes Municipal Water District | 21,200 | 21,200 | 21,200 | 20,200 | 19,200 |
| City of Long Beach | 30,200 | 29,900 | 30,300 | 30,600 | 30,500 |
| City of Los Angeles | 222,100 | 219,800 | 222,300 | 223,900 | 221,200 |
| Municipal Water District of Orange County | 201,200 | 211,600 | 219,200 | 224,500 | 226,800 |
| City of Pasadena | 19,700 | 20,300 | 20,800 | 21,100 | 21,100 |
| City of San Fernando | 0 | 0 | 0 | 100 | 100 |
| City of San Marino | 800 | 800 | 900 | 900 | 800 |
| City of Santa Ana | 10,100 | 10,700 | 11,200 | 11,400 | 11,300 |
| City of Santa Monica | 5,100 | 5,200 | 5,200 | 5,100 | 5,000 |
| San Diego County Water Authority | 465,900 | 469,000 | 459,600 | 449,100 | 447,700 |
| Three Valleys Municipal Water District | 61,300 | 63,500 | 66,000 | 66,500 | 65,500 |
| City of Torrance | 15,700 | 16,300 | 16,800 | 17,200 | 17,400 |
| Upper San Gabriel Valley Municipal Water District | 42,200 | 43,500 | 46,300 | 47,500 | 47,000 |
| West Basin Municipal Water District | 109,800 | 110,100 | 113,600 | 115,000 | 113,800 |
| Western Municipal Water District of Riverside County | 73,700 | 81,900 | 91,800 | 95,300 | 94,800 |
| Total of All Member Agencies* | 1,665,800 | 1,710,900 | 1,751,800 | 1,768,300 | 1,767,300 |

*Totals may not foot due to rounding differences.