THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

SPECIAL FINANCE AND INSURANCE COMMITTEE

March 22, 2022

Vice Chair Record called the teleconference meeting to order at 1:29 p.m.

Members present: Vice Chair Record, Directors Blois**,** Dennstedt, Dick, Faessel, Goldberg, Jung, Ortega, Quinn, Ramos, Smith, and Tamaribuchi.

Members absent: Director Hawkins.

Other Board Members present: Chairwoman Gray, Directors Abdo, Atwater, Camacho, Cordero, De Jesus, Erdman, Fellow, Fong-Sakai, Kurtz, Lefevre, McCoy, Miller, Morris, Peterson, Pressman, Repenning, and Sutley.

Committee Staff present: Beatty, Hagekhalil, Kasaine, Ros, Scully, Upadhyay

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE LIMITED TO THE ITEMS LISTED ON THE COMMITTEE'S AGENDA

None

2. WORKSHOP/COMMITTEE ITEM

a.	Subject:	Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24; proposed water rates and charges for calendar years 2023 and 2024 to meet revenue requirements for fiscal years 2022/23 and 2023/24; ten-year forecast; and Cost of Service Report (Workshop #4)
	Presented by:	Katano Kasaine, Assistant General Manager/Chief Financial Officer Arnout Van den Berg, Section Manager- Revenue & Budget
Ms. Kasaine introduced the item and Mr. Van den Berg presented the committee with an overview of the updated proposed biennial budget which included updated revenues and expenditures estimate, rates and charges and a review of proposed budget actions. He continued his presentation with a scenario for lower water demands and other rate options. Next, he discussed the follow-up items from workshop 3, which included conservation program details and draft rate options.		

Ms. Kasaine concluded the presentation with next steps.

The following Directors provided comments or asked questions:

1. Sutley
2. Quinn
3. Kurtz
4. Smith
5. Peterson
6. Fellow
7. Dennstedt
8. Pressman
9. Goldberg
10. Ramos
11. Fong-Sakai
12. Record
13. Ortega

Staff responded to Directors' comments and questions.

Director Kurtz noted that on March 21, 2022, the City of Pasadena submitted a letter commenting on Item 2a and requested that the letter be made part of the record.

3. FOLLOW-UP ITEMS

None

4. FUTURE AGENDA ITEM

None

5. ADJOURNMENT

The next meeting will be held on April 11, 2022.

Meeting adjourned at 3:06 p.m.

Randy Record
Vice Chair

OFFICE OF THE CITY MANAGER

March 21, 2022

Katano Kasaine
Chief Financial Officer
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012-2944

Dear Ms. Kasaine:

The City of Pasadena ("Pasadena") offers the following comments and a recommendation on the proposed budgets and rate increases for the Metropolitan Water District of Southern California ("Metropolitan") for fiscal years ("FY") 2022/23 and 2023/24.

Pasadena does not support rate increases of 8% and 8% for each of the next two years. Over the past decade, Metropolitan staff has continuously communicated to its member agencies to expect rate increases of 3-5% per annum. And, Metropolitan has stayed that course and managed to operate within those parameters despite some of the most challenging drought years in recorded history.

Every Metropolitan budget cycle includes a ten-year forecast that the member agencies use in planning for their respective budgets and possible rate increases. When the FY 2020/21 and 2021/22 budgets were adopted, Metropolitan staff forecasted annual rate increases of 3%-5% for the upcoming decade. Pasadena relied on this forecast in developing its own budget and water rate structure to fund our Capital Improvement Plan, and to fund replacement or repairs of aging infrastructure, along with the purchase of imported water from Metropolitan.

The budget proposal currently before the Metropolitan Board has departed without sufficient time for member agencies to adjust their plans accordingly. Pasadena's rate increase proposal was already approved by its City Council and the City is not planning to revisit its rates for the next two fiscal years.

Metropolitan needs to live within its forecasts absent extraordinary circumstances. Certainly, inflation is higher than what was predicted, but that should result in a rate proposal closer to 5% not a jump to 8%. Moreover, Metropolitan needs to work more closely with its member agencies when proposing dramatic changes to its projected rate forecasts to allow the member agencies sufficient time to make adjustments to their respective budgets, Capital Improvement Plans and rate proposals.

PASADENA PROPOSES FIVE PERCENT RATE INCREASES FOR FY 2022/23 AND 2023/24

<u>Pasadena proposes that Metropolitan hold its proposed rate increases to 5% for each of the next two years</u>. Pasadena believes this would provide sufficient funding for key Metropolitan objectives while allowing the

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member agencies to manage their own budgets and systems. All of the member agencies are dealing with reduced sales due to drought, conservation and the lingering effects of the COVID-19 pandemic. Cities

have been particularly hard hit by the pandemic, losing not only revenue from reduced water sales but all other sources of revenue such as sales tax, retail business and tourism.

PROPOSED COST CONTAINMENT ACTIONS FOR METROPOLITAN

Pasadena believes that Metropolitan can take steps to reduce costs and keep its rate increases to no more than 5%. The following are two steps Pasadena feels Metropolitan should take for cost containment.

Eliminate New Positions - Pasadena was surprised to see that Metropolitan's proposed budget includes funding for 20 new positions and suggests a need for a total of 80 additional positions. This was coupled with an unrealistic goal to reduce the actual vacancy rate to less than 3% of the current staff level. Metropolitan currently has a vacancy rate over 5% and for the past decade, Metropolitan has operated within a 5-10% vacancy rate. It is highly unlikely that Metropolitan will fill all these desired new positions, reduce the existing vacancy level and keep up with retirements simultaneously.

Metropolitan has enough vacancies and there will be sufficient retirements for management to hire staff as needed to continue its mission. The General Manager has the authority to move existing vacancies to fill positions where needed, whether that be in operations or in engineering if those are deemed to be the highest priorities.

In these financial challenging times, holding Metropolitan to its existing staffing level is not even a cost cutting action, merely foregoing an increase. That is the minimum Metropolitan should do as we all wrestle with losses from the pandemic and inflation.

Specifically, new high overhead positions should not be filled now when operational needs are unfilled. The proposed budget calls for several new senior executives to be hired at higher salaries to pursue new initiatives. Metropolitan has a highly skilled cadre of senior executives and the General Manager should restructure the duties of existing management to reflect a different focus without adding more executive staff.

The same principle applies to the proposed doubling of the Ethics Office. Based on a review of the last ten years of monthly reports from the Ethics Office, there does not appear to be sufficient workload or any other justification for doubling the staffing of the office. If the Board decides to restructure the Ethics Office and expand the scope of its duties to include other duties, such as Brown Act administration or equal employment opportunity matters, then the current staffing would have to reflect those changes. Because this work is currently being done elsewhere within Metropolitan, reassigning current staff versus adding new positions would be more prudent and cost effective. However, those decisions should be made in the context of a review of the scope of the duties and functions of the Ethics Office, not as part of the proposed budget.

Eliminating 20-80 new positions from the proposed budget should result in a lowering of the proposed rate increases by 1-2% each year.

Reduce Demand Management Spending - The proposed budget calls for $43 million to be spent during each of the next two years on demand management to be funded solely on increases to the supply cost of

water. The budget calls for $25 million each year to come from the General Fund with $18 million to come from borrowing. Pasadena strongly opposes borrowing to fund demand management and questions whether it is appropriate to use bond financing for these expenses. Even if this practice is legal, it has never been Metropolitan's practice to finance demand management with debt and seems an improper burden to future generations for short-term mostly non-capital expenses.

As for the $25 million called for in each year to be paid out of the General Fund, Pasadena recommends that funding be reduced to $10 million per year for this budget cycle. Pasadena believes that if Metropolitan wishes to fund demand management as a fixed annual cost, Metropolitan should develop a fixed rate to fund that expense. If instead demand management is to be funded solely by variable water supply sales, then demand management expenditures should also rise and fall with water sales.

This funding plan would be much fairer for the retail consumers who are taking steps to conserve and use less water. The current budget forecasts historically low sales for Metropolitan. This low-demand projection is due primarily to the good conservation efforts of Southern Californians. If water sales begin to trend back up, then budgeting for demand management should also increase reflecting the need for more conservation. In that scenario, there would also be higher revenues from the corresponding sales to support the increase.

A reduction in demand management spending by $30 million over the next two years and eliminating debt funding of demand management programs should result in a lowering of the proposed rate increase by at least 1%.

CONCLUSION

Pasadena will support a Metropolitan budget proposal of 5% for each of the next two years. We have provided two relatively straightforward ways in which this could be accomplished. If Metropolitan staff has other ideas to reduce the rate increase to 5% or lower and still pursue adding staff and/or higher spending on demand management, Pasadena would welcome such a discussion. However, Pasadena needs Metropolitan to hold to its original forecast of rate increases between 3-5%. If there is a need to shift away from this forecast, the Metropolitan Board of Directors should spend the next two years preparing for that shift in the next budget cycle. This proposal for a much higher increase cannot be supported with only two-months' notice and limited discussion.

Sincerely,

Cynthia J. Kurtz
Interim City Manager

cc: Adel Hagekhalil, General Manager
MWD Board of Directors