



# San Diego County Water Authority

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

April 25, 2018

Jeffrey Kightlinger  
General Manager

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: California WaterFix Two-Tunnel Project Rate Impacts

Dear Jeff:

I have received your April 20, 2018 letter regarding WaterFix Two-Tunnel Project rate impacts. While I appreciate your explanation how MWD staff calculated rate impacts for an "average" Southern California household, ***the Water Authority's staff report analyzed a range of projected WaterFix rate impacts on the Water Authority and the San Diego region's ratepayers.*** We analyzed the projected costs using the same methodology we use to analyze all alternative supply projects (rate impacts are described in nominal dollars, and household impacts are calculated assuming a household that relies 100% on Water Authority supplies). While it's clear that MWD and the Water Authority used different assumptions, all of the underlying data and project assumptions used in the Water Authority's analysis came from MWD, including the assumption that the project will not ultimately exceed MWD's \$16.7 billion estimate.

Your letter fails to note the important fact that ***MWD is advocating to change its State Water Project contract*** to provide that WaterFix costs be billed as transportation rather than supply-related ([see Table 2 of Appendix B of DWR's Bulletin 132-17: Data and Computation Used to Determine 2018 Water Charges](#)). ***You are well aware that this change has a unique and material, negative financial impact on the Water Authority, its member agencies and our region's ratepayers,*** as long as the Water Authority continues to rely on MWD for transportation of its independent Colorado River water supplies. This has nothing to do with our reduced demand for MWD water. It is, for all practical purposes, a permanent tax on San Diego ratepayers ***even if the Water Authority buys zero MWD water in the future.*** Your letter misleads in this regard, because I'm sure you understand that the Water Authority's staff analysis took this factor into consideration.

The following table<sup>1</sup> demonstrates the substantially different impacts on San Diego ratepayers, depending on whether costs are allocated to supply in accordance with MWD's existing State Water Project contract, or changed to transportation charges as proposed by MWD:

**WaterFix Two-Tunnel Project**  
**Estimated Average Household Impacts in Water Authority's Service Area**

**4% Interest with costs charged as Supply:**

$$\begin{aligned} & \$832 \text{ million} \times 0.68\% / 340,425 \text{ AF} = \$16/\text{AF} \\ & (\$16/\text{AF} \times 0.4 \text{ AF/year}) / (12 \text{ month/year}) = \mathbf{\$0.55/\text{month}} \end{aligned}$$

**4% interest with costs charged as Transportation:**

$$\begin{aligned} & \$832 \text{ million} \times 16.31\% / 340,425 \text{ AF} = \$398/\text{AF} \\ & (\$398/\text{AF} \times 0.4 \text{ AF/year}) / (12 \text{ month/year}) = \mathbf{\$13.27/\text{month}} \end{aligned}$$

**8% interest with costs charged as Supply:**

$$\begin{aligned} & \$1,321 \text{ million} \times 0.68\% / 340,425 \text{ AF} = \$26/\text{AF} \\ & (\$26/\text{AF} \times 0.4 \text{ AF/year}) / (12 \text{ month/year}) = \mathbf{\$0.80/\text{month}} \end{aligned}$$

**8% interest with costs charged as Transportation:**

$$\begin{aligned} & \$1,321 \text{ million} \times 16.31\% / 340,425 \text{ AF} = \$632/\text{AF} \\ & (\$632/\text{AF} \times 0.4 \text{ AF/year}) / (12 \text{ month/year}) = \mathbf{\$21.07/\text{month}} \end{aligned}$$

Regarding MWD's calculation of "average" costs, I would also note that in its 2012 promotional material, MWD said the household impact of WaterFix would be less than \$5 per month, when MWD's share of the cost was assumed to be \$3.5 billion. Today, with MWD's share of the cost set at \$10.8 billion, MWD is still reporting the household impact as being less than \$5 per month. It is apparent that to produce the same household impact for a \$3.5 billion commitment as a \$10.8 billion commitment – more than three times the original figure – required MWD to change its underlying assumptions. In contrast, as noted above, the assumptions that Water Authority staff used to estimate household impacts of WaterFix within the San Diego region are the same as those we used to estimate the rate impact of the Claude "Bud" Lewis Carlsbad Seawater Desalination Plant and other projects our board has considered.

Our board is also deeply troubled by MWD's own admission that paying an additional \$6.5 billion for the unsubscribed share of costs to build the second tunnel provides **no increased supply benefits to MWD**. Further, MWD's proposal to pay nearly 65 percent of total costs of the Two-Tunnel Project was not released until late Friday afternoon before the following week's Tuesday board meeting; and, most of the staff "analysis" consisted of outdated PowerPoint presentations. As a result, the San Diego County Water Authority's Board of Directors and the public were denied any opportunity to substantively review or comment on the proposal. However, based upon comments I have subsequently received from our Board of Directors and the public, there is significant concern about spending San Diego ratepayer dollars to pay for the unsubscribed share of Central Valley farmers, on the hope they may someday be willing to pay their share of the project's costs.

The Water Authority and Los Angeles delegations on the MWD board voted no on the WaterFix action because, in spite of repeated requests over an extended period of time, MWD had not provided sufficient information to analyze the rate impacts on our ratepayers or protect them from risks that could potentially run in the billions of dollars. Your letter has provided no new information. Copies of

Mr. Kightlinger

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the letters from the San Diego and Los Angeles delegations are attached.

While we appreciate the efforts of MWD staff and the Governor to bring the California WaterFix project forward, cost and rate impacts must be based on credible financial data, water supply data, and risk analyses to protect MWD and its member agencies' rights and interests. Despite many years of activities and the expenditure of more than \$250 million in pre-construction spending, this information remains unavailable.

Sincerely,



Maureen A. Stapleton  
General Manager

**Attachment 1:**

Water Authority letter dated September 30, 2017 re WaterFix: request for documents

**Attachment 2:**

Water Authority letter dated October 4, 2017 re Water Fix: request for documents

**Attachment 3:**

Water Authority Director Hogan's letter dated April 5, 2018 re Board Item 8-7: WaterFix

**Attachment 4:**

Los Angeles Delegation's letter dated April 9, 2018 re Board Item 8-7: WaterFix

cc: Gov. Jerry Brown

John Laird, Secretary California Natural Resources Agency

Karla Nemeth, Director California Department of Water Resources

MWD Board of Directors

Water Authority Board of Directors

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<sup>i</sup> Analysis is based on MWD funding 64.6% of the total project cost of \$16.7 billion (in addition to board resolutions that contained no cap on spending, costs will be even higher if MWD executes additional "transfer" agreements with SWP ag contractors through which it will assume an even greater share of project costs); assumes 3 percent inflation, construction cost spread over 13 years beginning in 2020, 0.25% is added to base interest rate of 4% and 8% to reflect cost of issuance, reserves and underwriters discount; O&M included; because the Water Authority's demand forecasts are projected based on a five-year increment; 2035 is chosen because is closest year when the tunnels are projected to be in full implementation; Water Authority's percentage of MWD 2035 demand adjusted for lower Water Authority demands, depending on how MWD applies WaterFix cost (on supply or transportation); Average household water use = 0.4 AF/yr. Water Authority's analysis was published on April 4; later that day, the Water Authority received MWD's explanation of its proposed application of certain SWP capital costs to its Readiness-to-Serve (RTS) charge. MWD has refused to provide the Water Authority a fully functioning rate model so that it may confirm MWD cost allocations and calculations. The tables contained in MWD's cost of service report do not allow a reader to track how costs are linked between schedules. Even if MWD were to recover half of its WaterFix costs through RTS charge, the household impact on San Diego ratepayers using the assumptions used in the Water Authority's analysis would still be between \$8.62 and \$13.69 per month, depending on the interest rate.



# San Diego County Water Authority

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September 30, 2017

Randy Record, Chairman  
Jeff Kightlinger, General Manager  
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
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RE: California WaterFix - Request for Documents

Chairman Record and General Manager Kightlinger,

The MWD Board is being asked to vote on October 10 to approve MWD's participation in California WaterFix, including authorizing the General Manager to execute three separate implementation agreements that would allow actions to be taken and costs incurred, even though MWD is the only major participant. While I can understand the motivation to express support for the project, I do not understand why we would authorize staff to sign implementation agreements when we don't know all of the important terms of the agreements, nor which state and federal contractors will actually be participating in the Project. What we do know is that there is a multi-billion funding gap at this time, resulting in part but not exclusively from the Westlands Water District recent board vote declining to participate in the project.

I read with concern a recent summary prepared by Santa Clara Valley Water District staff, describing terms and summarizing risks under the implementation agreements that have not been provided to or discussed by our Board of Directors. Among other things, there is apparently an option for state contractors to receive a proportionate share of project benefits under the existing contract, without participating in the financing authority that will provide funding unless and until DWR bonds are validated. It appears from the summary that the only parties who bear the financial risks associated with construction of the project (including the risk it may never be permitted to operate), are the contractors that join the financing JPA. There apparently are also terms and provisions relating to DWR's transfer of ownership of portions of WaterFix facilities, which have also not been discussed at MWD board meetings, presentations or workshops.

Director Steiner requested during the September 26 special meeting to be provided

OTHER REPRESENTATIVE

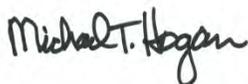
- County of San Diego

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Chair Record and members of the Board  
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with copies of the agreements staff is requesting authority to execute in Board Memo 8-4, dated October 10, 2017. It was my understanding the General Manager's answer was that he will not provide copies of these agreements to board members, because that is not the MWD staff's "customary practice."

I have reflected on this matter and am asking again to be provided with copies of the documents that are the subject of Board Memo 8-4. We are now 11 days away from a Board vote on a multi-billion investment and long-term legal obligation. I will not vote on the actions recommended by staff if it refuses to provide copies of these agreements because I do not believe that I am able to meet my obligation as a board member or to the public and ratepayers I serve without access to this information. It is not sound public policy for the Board not to be able to review the draft agreements before voting on a project of this magnitude.

Sincerely,

A handwritten signature in black ink that reads "Michael T. Hogan". The signature is written in a cursive style with a large, looped 'H'.

Michael T. Hogan  
Director

cc: MWD Board of Directors  
Water Authority Board of Directors



# San Diego County Water Authority

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October 4, 2017

Randy Record, Chairman  
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
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**RE: California WaterFix - Request for Documents**

Dear Chairman Record,

I received the General Manager’s letter dated October 2, 2017 refusing to provide copies of the implementation agreements staff is seeking authority to execute as part of its recommendation to approve MWD’s participation in California WaterFix. I do not appreciate the General Manager's characterization of my request as wanting to become involved in drafting legal documents. I was a general manager myself for more than 11 years (of my 40 years in the public sector), and I know full well the difference between staff and legal work on the one hand, and what information the Board of Directors is properly entitled to receive and review to meet fiduciary and board responsibilities to the public.

The responses the General Manager provided in his October 4 letter are inconsistent with reports and information that has been provided to other State Water Project contractors, and do not provide complete information regarding the potential financial risks for members participating in the financing JPA, particularly if DWR’s validation case is unsuccessful. Based on what I have read in other reports, the JPA does not appear to have authority to impose property taxes, so there wouldn’t be a backstop if a party defaults, in which case the JPA, not all SWP contractors, would be financially on the hook for all of the costs.

My level of concern might be different if MWD staff was only seeking an expression of support for the project on October 10, but it is asking for authority to spend up to 26% of total project costs even though the rest of the project participants have yet to be identified. While MWD's State Water Project share may be set initially at 26%, that amount of financial contribution to the financing JPA could quickly and even ultimately represent, for all practical purposes, 100% of the at-risk money if the only other agency signed up remains Zone 7 (about 1%). Perhaps there are provisions in the financing JPA

**OTHER REPRESENTATIVE**

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October 4, 2017  
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to address my concerns, but I don't know that because board members are not allowed to look at the documents.

The Water Authority's board process approving the Carlsbad desalination plant has nothing to do with my request. I was intimately involved with that process as Chairman of the Water Authority Board and I can assure you that any director's request such as the one I am making of MWD staff would have been promptly and fully addressed by providing the requested information. I hope as Chairman of the MWD Board of Directors, you will direct staff to comply with my request.

I am asking again for copies of the draft documents staff is requesting authority to implement following the October 10 board vote.

Sincerely,

A handwritten signature in black ink that reads "Michael T. Hogan". The signature is written in a cursive style with a large, stylized "H" and "G".

Michael T. Hogan  
Director

cc: Jeff Kightlinger, General Manager  
MWD Board of Directors  
Water Authority Board of Directors



# San Diego County Water Authority

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April 5, 2018

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

**MEMBER AGENCIES**

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- OTHER REPRESENTATIVE**
- County of San Diego

**RE: Board Agenda Item 8-7: Adopt CEQA determination and provide additional authorizations to participate in the construction of California WaterFix REQUEST TO ADD ITEM 8-7 TO THE APRIL 9 WATER PLANNING AND STEWARDSHIP COMMITTEE AS INFORMATION AND DEFER BOARD ACTION TO MAY**

Dear Chair Record,

By now, the Water Authority's delegates expected to have Board Memo 8-7 requesting unspecified additional authorizations to participate in the California WaterFix. This is an issue of great public interest, involving a commitment of billions of dollars of ratepayer money. And yet, it is now Thursday, with only one business day remaining before next week's committee and board meetings, and still no information has been made available about what will be voted on next Tuesday. The delegates also note with concern that the proposed board action will not be presented in committee on Monday, in accordance with the board's usual practice, thus depriving board members and the public of even that small amount of advance notice and information on what has now apparently been decided will be considered by the Board on Tuesday.

The Water Authority board has followed the evolution of the California WaterFix closely, including independent staff analyses and many board presentations on the information provided by MWD and obtained from other sources. We believe our board deserves a meaningful opportunity to review MWD's staff recommendation and supporting analyses before this Board votes on increasing what is already a multi-billion commitment. Many of our board members have already expressed concerns about MWD's apparent willingness to assume a level of financial responsibility for the project far in excess of its contractual share without any identified source of benefit or repayment.

The Water Authority's delegates have repeatedly requested that information be provided sufficiently in advance of a board vote to allow time to inform our member agencies and the public about MWD's staff recommendation, including letters sent to

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the General Manager last September and to you in October 2017 (copies attached). In January, when a staged approach first began to be discussed, I specifically requested that staff **not** rely solely on PowerPoint presentations on the day of board meetings to provide information. ***I requested a written board memo be provided, including a cost-benefit analysis by MWD staff, and that it be distributed at least one month prior to scheduled board action so directors would have enough time to evaluate the analysis and recommendations, as well as provide them to our member agencies and the public.***

This is no way for a public agency to make decisions, and certainly not when billions of dollars of ratepayer money is at stake. For these reasons, my colleagues and I representing the San Diego County Water Authority cannot support whatever action may be proposed to be taken next Tuesday. We request that Board Item 8-7 be added as an information item on Monday's Water Planning and Stewardship Committee, and that the board action be deferred to May in order to allow time for review by our board of directors, member agencies and the public.

Sincerely,



Michael T. Hogan  
Director

Attachment: Water Authority's letters to MWD requesting for WaterFix documents, dated September 30, 2017 and October 4, 2017

Cc: MWD Board of Directors  
Jeff Kightlinger, General Manager  
Water Authority Board of Director  
Maureen Stapleton, General Manager

April 9, 2018

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

Attention: Mr. Gary Breaux, Chief Financial Officer  
Ms. Marcia Scully, General Counsel

RE: Concerns to Recent Cal WaterFix Development and April 2018 Board Agenda Item 8-7

Dear General Manager Kightlinger:

The Los Angeles Metropolitan Water District (Metropolitan) Directors appreciate the recent attempts by Metropolitan staff to provide information to the Board on the latest developments and potential next steps on the Cal WaterFix. While we remain concerned about the ecological health of the Delta and the need to balance water supply with ecosystem restoration, we believe that much more information and clarity on the current two proposed project options are still required before an informed decision can be made by the Board on the next steps. Accordingly, it is the fiduciary responsibility of the Directors on this Board to delay any action on Item 8-7 until such time a project is put forward that describes clearly the impacts and benefits to participants and non-participants, and pending the outcome of discussions of those two groups. Furthermore, clarity is needed on the regulatory permitting outcome on operations, clarity on the risks and benefits to the Cal Eco-Restore program, environmental impacts, and disclosure of financial and rate impact risks to Metropolitan.

The current stage 1 (one tunnel) approach, or Option 1, represents nearly an additional \$1 billion cost impact to Metropolitan, now estimated at \$5.2 billion, compared to the cost allocation methodology last October, at about \$4.3 billion, with no real additional supply improvement to Metropolitan. The \$5.2 billion also does not include the potential pick up by Metropolitan of any options / offloading agreements from other State Water Project (SWP) contractors. Recently, Metropolitan informed the Board that Kern County Water Agency, the 2<sup>nd</sup> largest of the SWP contractors at about 1 million AF of Table A entitlement, has expressed only about a 50 percent participation interest in the WaterFix. This alone will potentially result in the offloading of about 500 TAF of shares, and create an additional burden of about \$1.3 billion to Metropolitan, also with no additional supply improvement benefit. Further clarity is needed on the SWP transfer agreements, which need to be finalized and executed to address the offloading of shares and the transfer of funding obligations between several of the large state water contractors.

The current potential path to over build capacity by more than 50 percent with a full twin tunnel project, or Option 2, has no additional supply improvement benefit to Metropolitan as noted in the current board letter. Having Metropolitan finance an additional \$5 billion for non-participants who have not and may never fully commit to the project puts Metropolitan member agencies and all ratepayers in direct exposure to financial risks and significant rate impacts that will very likely more than double in the near future.

Mr. Kightlinger  
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We express our disappointment on your late April 6 communication to the Board in allowing the full project (Option 2) to be included under Item 8-7 possible action as a result of a couple of directors' request, in spite of significant exposure risks identified by Metropolitan staff and the significant financial concerns expressed by the majority of the Board in recent meetings. Allowing Option 2 also goes against the principles by which you outlined last month to the Board that you would secure full financial commitments and securities by all participants to unsubscribed capacity before moving forward with any 2<sup>nd</sup> tunnel option proposal back to the Board. As of today, we do not have full Central Valley Project (CVP) participants with the 2<sup>nd</sup> tunnel option, and by itself, a 2<sup>nd</sup> tunnel owned and operated by Metropolitan would provide no additional supply improvement to Metropolitan.

We strongly believe that a 2<sup>nd</sup> tunnel built and financed primarily by Metropolitan in the hopes that the CVP Contractors will financially participate at some point in the future represents a significant departure from cost of service policies, the Board approved Integrated Resources Plan (IRP), and Metropolitan's mission of making investments to meet member agency demands without overinvesting or overbuilding. Future investments and actions of the Metropolitan Board on either the staged approach for a single tunnel, or the full project, must be based on and supported by all best available information, which goes well beyond speculation and assumptions about future actions by other agencies. Board decisions that financially bind member agencies are not symbolic and need to be thoroughly scrutinized like any other major capital investment project at Metropolitan.

Member agencies have not been provided a sound financing plan, the finance Joint Powers Authority (JPA) participation details, the executed options / offloading agreements for other SWP and CVP agencies, commitments or guarantees provided to Metropolitan by these agencies, the risks to Metropolitan of potential stranded assets, and the significant financial burden on Metropolitan ratepayers due to project related debt service and other costs. Metropolitan staff must demonstrate how financing the second tunnel option's cost is consistent with Metropolitan's cost of service policies -- public agencies can only be asked to pay consistent with the benefits they receive.

Metropolitan's mission is to meet the existing and projected demands of its member agencies. It is inconsistent with this mission to overinvest or overbuild in the hope that Metropolitan may potentially benefit financially in the future. Metropolitan recently addressed this very issue of stranded assets at one of their water treatment facilities, where the plant was originally initiated in good faith, but subsequently, portions of the treatment processes became stranded after it became apparent that member agencies built their own more cost-effective systems and avoided using Metropolitan's facilities all together.

The regulatory allocation of state and federal water supplies for either the staged approach or the second tunnel built by Metropolitan, need more clarity for project participants and non-participants. It must be clearly understood how governance of future project operations will be impacted by the conflict of competing interests resulting from multiple points of diversion, which will be regulated under a different set of rules at the new north intakes versus the existing south Delta points of diversion.

Los Angeles takes pride as one of the founding member agencies of Metropolitan and has believed in sound investments that best serve the region alongside with the other member agencies since its formation. Metropolitan's supplies will still play a critical part to Los Angeles' 4 million population, and

Mr. Kightlinger  
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 Page 3

the region's supplies in future dry years, and hence, investments in Metropolitan's future reliability are equally critical. Los Angeles also believes that a diverse portfolio of local supplies continues to be the cornerstone for a sustainable future, and Los Angeles is already making investments to triple the total amount of local supply production through improved water use efficiency and conservation, increase recycled water use, enhanced storm water capture to help recharge aquifers, and clean up of contamination in the San Fernando groundwater basin.

Over the next 20 years, Metropolitan's IRP showed close to 1.5 million acre feet of supply risks, of which the WaterFix can only address about 20 percent of those risks. The mitigation of the remaining 80 percent, or about 1.2 million acre feet of risks will rely on the success of member agencies to develop new local supplies. Metropolitan needs to take leadership to ensure its member agencies' success to accelerate completion of new local projects by expanding Metropolitan's investments in its Local Resources and Conservation Programs, and not overinvest nor overbuild a WaterFix project for others, where Metropolitan has no additional improvement in supply.

This Board has a first and foremost primary fiduciary responsibility to protect Metropolitan member agencies and their rate payers from all known and avoidable risks. We ask that action on Item 8-7 be delayed and we look forward to receiving additional information that will hopefully help guide the Metropolitan Board in determining the best path forward on the WaterFix so that due diligence can demonstrate how any Board decision is consistent with sound public policy. We also appreciate the work and dedication of Metropolitan staff has provided throughout the process in response to changed project conditions. We wish to reaffirm that any path forward needs to fully protect Metropolitan's rights, interests, and any potential investments.

Sincerely,



John W. Murray, Jr., Director  
 City of Los Angeles



Jesús E. Quiñonez, Director  
 City of Los Angeles



Glen C. Dake, Director  
 City of Los Angeles



Lorraine A. Paskett, Director  
 City of Los Angeles



Mark Gold, Director  
 City of Los Angeles