



RON GALPERIN  
CONTROLLER

October 10, 2017

Honorable Eric Garcetti, Mayor  
Honorable Members of the Los Angeles City Council

**RE: California WaterFix, Bay Delta Conservation Project—CF: (17-0930)**

Dear Colleagues:

As you are aware, the Metropolitan Water District (MWD) is anticipated to consider, and potentially vote on, the California WaterFix project today, October 10, 2017. There has been discussion by the City Council, the Los Angeles Department of Water and Power (DWP), and the Office of Public Accountability/Ratepayer Advocate relative to the project's potential costs to Los Angeles ratepayers. During this discussion, California WaterFix has been described as a water "insurance policy" for the City of Los Angeles. But unlike an insurance policy, the details of the specific rates and benefits of WaterFix have not been laid out and examined alongside alternative projects. A fiscally responsible consumer would not sign up for insurance without written indication of the plan's monthly cost and comparing the plan to other options. Before the MWD approves funding for WaterFix, those same considerations must be made. Without more information, it is impossible to know exactly how much L.A. ratepayers will be required to pay, or if WaterFix is the best option for the region.

The current funding proposal would split the cost of the \$16.7 billion project between two parties: the federal Central Valley Project (CVP), which would pay 45%; and the State Water Project (SWP), which would pay the remaining 55%. The MWD provides outside water to the City of Los Angeles through contracts with SWP, and MWD is expected to pay for 26% of the total cost of the project. However, this payment plan is not set in stone, leaving L.A. ratepayers subject to potentially rising costs. Current arrangements made by the CVP allow their contractors to opt out of funding WaterFix. A large CVP contractor, the Westland Water District, was expected to contribute more than \$3 billion to the project, but recently voted against participation in WaterFix. The

more CVP contractors opt out, the more expensive the project could become for L.A. ratepayers.

The California State Auditor opined that the California Department of Water Resources (DWR), which oversees the SWP, broke state law when it hired The Hallmark Group to manage the planning of WaterFix without first ensuring that the company had the technical credentials required to oversee the project. The Auditor's report concluded that the group "does not appear to possess [those credentials] or experience with relevant projects." Additionally, the Auditor criticized DWR's failure to complete an economic analysis demonstrating the financial viability of the project. DWR responded that this is not a problem as they "have received no requests for additional information." It is imperative that the City of Los Angeles and the MWD request a complete economic analysis of the California WaterFix project before approving a project that, according to the State Auditor, has already experienced "significant cost increases and delays."

MWD has acknowledged these financing uncertainties, but has not provided assurances that these uncertainties will be clarified and subject to public review before the MWD board is asked to vote on WaterFix. To safeguard ratepayers from being required to write a blank check to cover shifting costs, any agreement by MWD to participate in WaterFix should cap its participation at 26% of the project's costs and should come only after the other funding has been secured. MWD should also provide assurances that the property tax rate that they set will not be raised, without approval of member jurisdictions. An MWD property tax increase would require every ratepayer, even those who never use a drop of water produced by WaterFix, to pay more each year in taxes.

Further, DWP should work to reduce its reliance on outside water sources like MWD, by making investments in locally sourced water projects, like stormwater capture, water recycling, and groundwater cleanup. These projects can bring L.A. closer to meeting the City's goal of 50% source water creation by 2035, while also insulating L.A. ratepayers from rising outside water costs.

My office recognizes the likelihood that the City of Los Angeles may always rely to a certain extent on water sourced from non-local regions. I wholeheartedly support efforts to diversify Los Angeles' water sources and ensure the reliability of our City's water supply. However, although WaterFix's construction plan has been subject to some public scrutiny, many aspects remain uncertain or undisclosed. WaterFix should be considered alongside projects focused on repairing water infrastructure that supplies water to the region, and local water projects. Cost benefit analyses should be conducted to allow WaterFix to be compared directly to other infrastructure and water sourcing projects to determine how to maximize benefits to L.A. ratepayers while minimizing costs.

Transparency should exist at each step along the way, and votes by MWD to approve WaterFix should be postponed until all of the information regarding financing negotiations is on the table and MWD's level of participation has been finalized.

Approving WaterFix before financing agreements are finalized and cost benefit analyses are conducted, is equivalent to signing up for insurance before the cost of the premiums are disclosed and a competitor rate comparison is reviewed. The representatives of the MWD should be urged to demonstrate the same fiscal responsibility and levels of transparency that anyone would require prior to purchasing such insurance policies, in the interest of all L.A. ratepayers.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ron Galperin", with a long horizontal flourish extending to the right.

Ron Galperin  
CITY CONTROLLER