

Los Angeles Daily News

DWP rate hike fight
Council rebels aim to water down plan

By Beth Barrett and Rick Orlov
Staff Writers

Wednesday, March 24, 2004 - Rebellious Los Angeles City Council members have mounted an 11th-hour effort to derail the Department of Water and Power's proposed 18 percent water-rate hike by demanding an independent audit of the utility's finances first.

City Councilman Greig Smith said Tuesday that he'll introduce a motion today that, if approved, would require the DWP and the city's Bureau of Sanitation to conduct audits and communicate with neighborhood councils before the council considers rate hikes. With council consideration of the rate hike expected to come up as early as Friday, City Hall officials immediately scrambled to counter opponents' efforts, raising new fears that a delay could hurt the utility's bond rating although experts in the field have disputed whether there's a risk.

Mayor James Hahn declined to take a stand. "The mayor feels it would be premature to say anything until the council decides this one way or another," spokeswoman Shannon Murphy said.

Controller Laura Chick, who conducted audits on the DWP's spending on lavish parties and costly sponsorships, said mismanagement is to blame for running out of cash for operations and to maintain the revenue transfer to the city general fund.

"They are being disingenuous in that they are proffering (the rate hike) on security concerns and water-quality concerns when I think the concerns are less than state-of-the-art management, less than state-of-the-art decisions that resulted in large expenditures of money that put them in the position where they need to ask for a rate increase in order to make the revenue transfer (to the city)," Chick said.

"I've watched the department not jumping to attention and expediently changing its ways and implementing sound and logical recommendations for change to make it a better-managed department. It's bad common sense to ask for an increase when they haven't first cleaned their own house."

City Hall sources said they anticipated a heated battle over the rate hike, which is to be phased in over two years, despite broad opposition from neighborhood councils. One strategy might be to clear the way for quick passage of the current rate-hike plan but impose tougher standards on future hikes. DWP officials say the money is needed to pay for improvements to the quality of water and for security for the water system in the light of the threat of terrorist attacks.

Smith, who represents the northwest San Fernando Valley, said the DWP has failed to justify the increase -- which comes 18 months after officials promised that rates would not go up despite hefty pay raises for thousands of employees.

A draft of the motion obtained by the Daily News states, "It is incumbent upon the City to provide transparency in these matters. The public trust is not to be taken lightly, especially when rates and fees are increased."

Smith said he had support from several of his colleagues, and anticipated that the motion could be considered as soon as Tuesday.

DWP officials were caught off guard.

"This is news to me," said the DWP's acting general manager, Frank Salas. "I'm surprised."

But Salas predicted that the utility would prevail, citing support from other top city officials. "We'll get by this."

Councilman Tony Cardenas, who chairs the Commerce, Energy and Natural Resources Committee and has supported only the first year 11 percent hike, said he would like to get a "better financial handle" on the utility's situation.

He said DWP officials "mumbled more than they spoke" when asked to justify the 18 percent rate increase. "DWP has not made the case for what the rate increase should be."

Councilman Bernard C. Parks, who chairs the council's Budget and Finance Committee, said he would want to examine the immediate and long-term impact of a delay in the face of the city's budget shortfall of \$250 million.

"I've been told that for this coming year, we need to get this increase through in order to get the transfer we are expecting from the DWP," Parks said.

City Administrative Officer William Fujioka, in a report to the council, said transfers from the water division would drop from \$28 million annually to \$7 million in fiscal 2006, and to zero the following year. Fujioka denied that the transfer to the general fund was a central reason for recommending the rate hike.

The CAO, however, criticized the DWP for failing to implement several alternatives that potentially could have saved millions of dollars and reduced the size of the proposed increase. DWP officials said they had limited flexibility to consider those options. Council President Alex Padilla said he wants to see better planning by the utility but believes a rate increase is warranted.

"I'm willing to go along with this rate increase as long as we have an idea of where we're headed. I don't want us to come back in a year and a half and have this same discussion," Padilla said. "From my standpoint, I want to see some long-term planning by the DWP. I'm sure other council members have similar concerns."

Councilwoman Cindy Miscikowski, who also serves on the Commerce, Energy and Natural Resources Committee, said: "Unless there is more new information, I think this rate increase is required to not risk our bond rating. Maybe more is needed down the road, but for now we need this."

Gerald Gewe, chief operating officer of the water division, said officials have known the agency was using up its cash "cushion" and now "the cushion has run out."

The rate hikes would generate about \$24 million the first year, \$65 million the second, and more than \$80 million the third year.

City officials have acknowledged that pay raises in 2002 -- which include annual bumps of between 4 percent and 6 percent -- contributed to the cash-flow squeeze.

"Obviously they're inter-related," Gewe said. "If we spent less on salaries, then there'd be less of an increase. But the council approved the MOU (memorandum of understanding with the DWP's union). I'm going for what I need."

DWP officials also have inflated security estimates since they presented their proposed fiscal 2004 budget last May.

The agency then said it wanted to spend about \$30 million on intrusion detection systems, including alarms, cameras, sensors and special locks -- protections it has yet to install.

Since then, the department is counting against security about one-third, or about \$253 million, toward the \$730 million cost of covering or closing old reservoirs.

The DWP has a \$2.3 billion capital program over the next six years, of which it plans to borrow about \$1.5 billion. The remaining \$800 million would come out of water revenues.

Smith's move was hailed by Jim Alger, the Porter Ranch resident who is organizing the city's network of advisory neighborhood councils against the rate increase. Alger said an outside audit would instill public confidence that the DWP's increase is justified.

"Right now they're basically telling us to trust them," Alger said. "I don't think the general public exactly has a lot of confidence in what the DWP tells them."