

REPORT FROM


## OFFICE OF PUBLIC ACCOUNTABILITY

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Date: May 3, 2018

To: The Board of Water and Power Commissioners

From: Frederick H. Pickel, Ph.D., Executive Director/Ratepayer Advocate 

Subject: OPA Report on the Department of Water & Power Fiscal Year 2018-2019  
Final Budget

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### OPINION

OPA recommends that the Department of Water & Power Board of Commissioners authorize the transmittal of the Fiscal Year (FY) 2018-2019 budget. Recommendations of the OPA from 2016-2017, 2017-2018 continue to be relevant: they are repeated or re-stated on Attachment A.

### BACKGROUND

DWP annually allocates excess cash in ways that: 1) reduce leverage, 2) reduce employment liabilities, and 3) preserve capital project funds until needed. Historically, the DWP Board has not been asked to supervise this practice, or provide guidance on these allocations. DWP has improved its reporting in the last year, by setting forth in an annual report to the Board the prior year's results after the audit concludes. OPA commends the DWP for taking this first step.

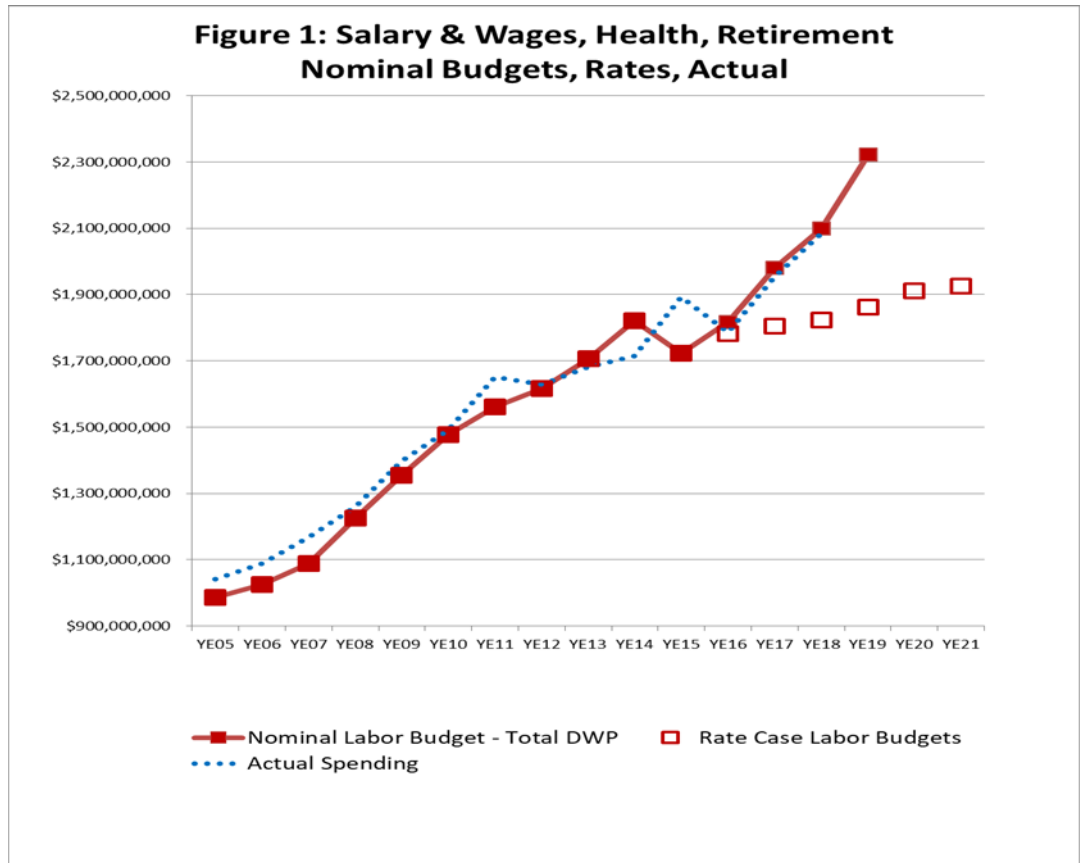
DWP has also made progress on expanding materials contracting in the last year. OPA understands DWP wishes to improve the rate of hiring, but no major changes in practices have been announced. DWP continues to struggle to deliver the capital investment planned and funded in the rate authorization encompassing fiscal year end 2016 through 2020.

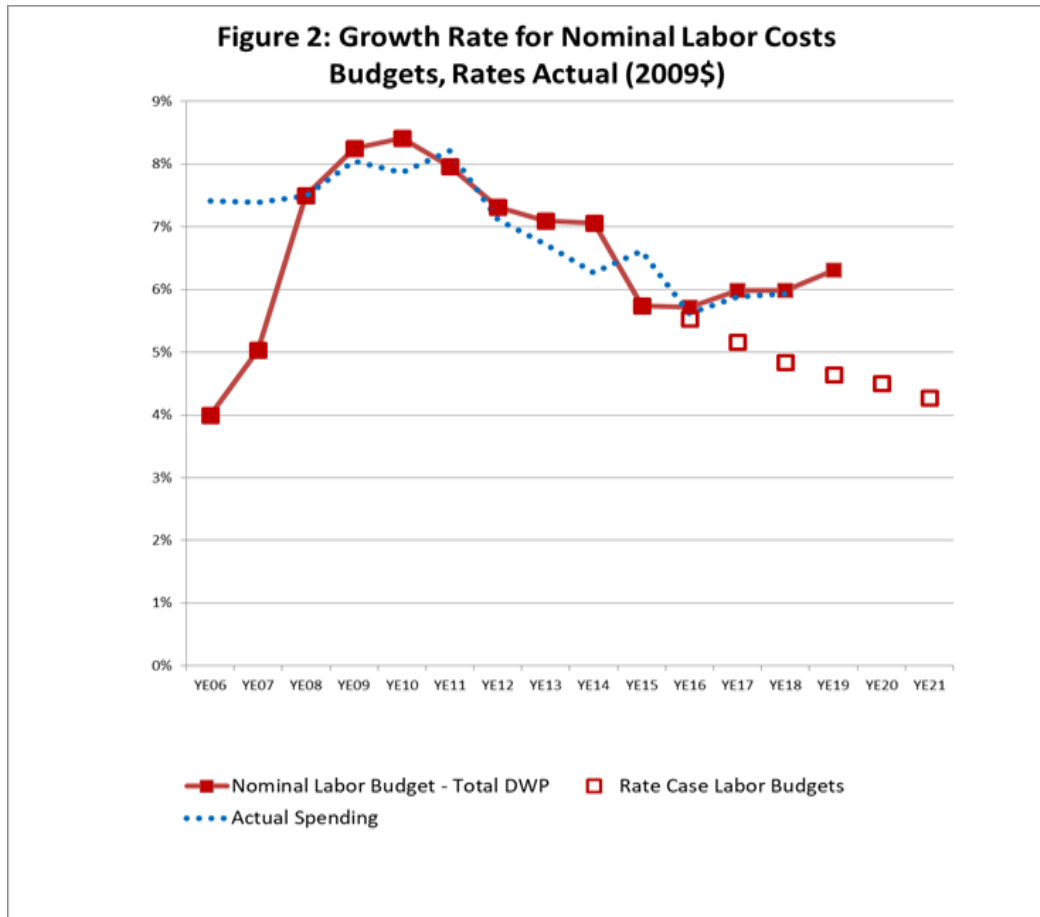
### OPA'S OBSERVATIONS ON THE 2018-2019 BUDGET

Below, OPA has used **bold** lettering to call attention to the proposed budget, in the context of historical information.

1. Cumulatively, the budgets recommended to the Board in the 2016-2020 rate period are above the estimated labor budgets for the 2016 authorized rates as follows:
  - 2016-2017: \$169M
  - 2017-2018: \$270M
  - **2018-2019: \$462M**
    - Total: \$901M
  
2. To offset additional labor costs, DWP has reduced non-labor costs from the 2016 authorized rates as follows:
  - 2016-2017: \$250M
  - 2017-2018: \$542M
  - **2018-2019: \$708M**
    - Total: \$1.500B
  
  - Important deferred capital items within the power budget include: \$284M for Scattergood repowering, \$92M for renewable power development, \$62M for Owens Valley Solar Power, \$84M for distribution level power reliability (PSRP), and \$32M for substation level power reliability (PSRP).
  
  - Important deferred capital items within the water budget include: \$120M for water trunk line replacement, \$60M for water mainline replacement, \$121M for Owens Lake Master Project, \$41M for water recycling, and \$33M for groundwater remediation.
  
3. Cumulatively, the amount of planned capital investment that has not been executed as planned for in the 2016 authorized rates is as follows:
  - 2015-2016: \$657M, including \$96M of cash. For perspective, \$1.7B of capital expenditure occurred in this year.
  - 2016-2017: \$689M, including \$211M of cash. For perspective, \$1.8B of capital expenditure occurred in this year.
    - Total: \$1.346B, including \$307M of cash was unspent, and \$3.5B of planned capital was spent.
  
4. The labor budget proposed may not be executable. DWP may not be able to gain additional increases to its rate of hiring. However, this budget may serve some useful purpose in assisting the DWP with either obtaining more effective human resource execution, or in adjusting future budgets closer to actual staffed activities.

5. The growth rate of total compensation (salary, benefits, and retirement) are as follows, using the Gross Domestic Product implicit price deflator to adjust for inflation in constant 2009 dollars:
- 2016-2017: 4.0%.
  - 2017-2018 estimated: 4.3%
  - **2018-2019 proposed: 4.8%**
    - Before inflation adjustment: **6.3%**. (See Figure 2.)
    - One year nominal amount: **2,322,772,200**. (See Figure 1.)
    - One year nominal percentage change: **11%**.
  - Nominal annual changes are provided for comparison and context.
  - DWP's 2016-2017 long-run inflation adjusted growth rate in total compensation was a significant achievement.





## ATTACHMENT A

### OPA BUDGET RECOMMENDATIONS

OPA's recommendations and advice for the 2016-2017 budget were:

- First, DWP should not rely on a balance sheet item of “unrecovered costs” or “regulatory assets” to smooth additional labor costs into future rates. Such practices “kick the can down the road” to future ratepayers.
- Second, DWP must convert labor costs and construction work in progress into infrastructure to a far greater extent than the last two years.
- Third, DWP must gain additional agility in hiring and procurement. DWP is constrained in many ways from deploying capital at the planned pace.

OPA recommendations and advice for the 2017-2018 preliminary budget were:

- Consider an informal identification of unused cash, to preserve its availability for deferred capital work when the rate period ends.
- Identify the three largest impediments to the rate budget for 2017-2018 so that work to resolve those impediments can begin.
- Publish all capital work that DWP planned in the rates to outsource, but cut from the rate budget.

cc: The Honorable Eric Garcetti, Mayor  
David Wright, General Manager, Department of Water and Power