



REPORT

OFFICE OF PUBLIC ACCOUNTABILITY

Date: December 11, 2014 Council File No. _____

To: The Honorable Eric Garcetti, Mayor
The Honorable Members of the City Council
The Board of Water and Power Commissioners

From: Frederick H. Pickel, Ph.D., Executive Director/Ratepayer Advocate 
Grant E. Hoag, P.E., Utility Rate and Policy Specialist 

Subject: California's \$7.5 Billion State Water Bond Approved Under Proposition 1 -- City of Los Angeles Costs and Benefits

SUMMARY

The analysis in this report indicates that if City of Los Angeles (City) water projects are funded by at least \$700 million in grants from the approved \$7.5 billion in State Water Bond of 2014, then the residents' share of Bond debt is fully offset by local City and community benefits.

RECOMMENDATIONS

The Office of Public Accountability (OPA) recommends that the City undertake identification and prioritization of the Proposition 1 grant opportunities, in order to maximize residents' benefits and offset costs of the Bond. Many grants will require further coordination with City departments and non-City agencies. OPA can provide advice on the reasonable share of the Department of Water and Power's (DWP's) participation in these multi-agency grant opportunities.

BACKGROUND

The approved \$7.5 billion Bond provides grant funding for state-wide water ecosystem, supply, and storage improvement projects. The funding allocations will be selected by the State Legislature and the California Water Commission, a nine-member board appointed by the Governor. The funded projects, which in most cases will require a 50% local cost share, include an estimated \$3.6 billion in categories applicable to the City's water ecosystem and supplies:

- \$800 million for prevention and cleanup of groundwater pollution;
- \$810 million for regional water-related projects including capturing rainwater;

- \$725 million for water recycling;
- \$305 million for watershed restoration;
- \$260 million for drinking water projects for disadvantaged communities;
- \$100 million for managing local groundwater basins; and
- \$600 million for other water supply and watershed projects.

The remaining Bond proceeds, including \$2.7 billion for dams and other storage projects such as the Sites and Temperance Flat Reservoirs, may have certain indirect benefits to Los Angeles. However, inclusion of these costs and benefits is beyond the scope of this analysis.

FINDINGS

As shown in the table, the estimated monthly cost of the Bond is \$1.97 per household, regardless of the level of benefits accrued. The low to high range of household impacts is a net cost of \$1 per month up to a net benefit of \$2 per month. Specifically:

- If the City receives only \$337 million in Bond grants, then there is a net cost to City households of \$1 per month including the \$1.97 monthly Bond repayment. The \$337 million in grants represents 9% of the estimated \$3.6 billion in City-eligible projects;
- If City water projects are funded by \$701 million in Bond grants representing 19% of the \$3.6 billion, then the typical City household’s share of Bond debt is fully offset; and
- If the City receives \$1.387 billion in grants (39% of the \$3.6 billion), then there is a net monthly benefit of \$2 per City residence.

Summary -- LA Household Cost/Benefits for \$7.5 Billion State Water Bond

Description	Breakeven		
	Low Case	Case	High Case
Potential LA Project Grants from Bond (\$ million)	\$337	\$701	\$1,387
Monthly Cost & Benefit per LA Household (\$/mo.-HH)			
Bond Benefits to LA Households			
DWP Ratepayer Benefits	\$0.25	\$0.76	\$1.14
Household Benefits from Other City Services (Parks, BOS etc.)	\$0.72	\$1.21	\$2.83
Total Benefits (\$/month per Household)	\$0.97	\$1.97	\$3.97
Less Bond Cost per Household	(\$1.97)	(\$1.97)	(\$1.97)
Net Cost or Benefit to LA Households	(\$1.00)	\$0.00	\$2.00
	Cost per HH		Benefit per HH

Note: The Bond cost is per average household statewide. The household benefits are based on avoided costs of DWP services and estimated household savings in fees and taxes.

DWP: LA Dept. of Water and Power. BOS: LA Bureau of Sanitation. HH: Household

ASSUMPTIONS

There are several assumptions in the analysis:

- Benefits are defined as the combination of reduced DWP water service charges from Bond-funded projects (such as the San Fernando Valley Groundwater Basin cleanup), and the offset costs of grant-funded projects from other City departments;
- The findings are for typical households with 12 HCF units of monthly water use; and
- All Bond-funded project costs in the three scenarios would otherwise be entirely City funded.

cc: Marcie L. Edwards, General Manager, Dept. of Water and Power
The Honorable Mike Feuer, City Attorney
The Honorable Ron Galperin, Controller
Sharon Tso, Chief Legislative Analyst
Miguel Santana, City Administrative Officer