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# California Legislature



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## JOINT LEGISLATIVE AUDIT COMMITTEE RICARDO LARA, CHAIR

February 15, 2012

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### Members

Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, CA 95814

2012-104

Dear Members of the Committee:

I respectfully request approval of an audit to evaluate the cost of water delivery in Southeast Los Angeles County. Specifically, I would like the State Auditor to focus on the significant factors that contribute to a customer's water bill to identify the reasons for the rising cost of water and methods to improve the cost effectiveness of water delivery.

In recent months, I have heard from my constituents about the rising costs of drinking water and the quality of service being provided. Many of my constituents who live in modest, single family homes are paying several hundred dollars per month for water. Unfortunately, too many people are forced to choose between medications and food or water. This is a decision that many Californians are facing. There is minimal understanding of why water bills are increasing at such a dramatic rate, the factors that contribute to monthly charges and the reasons for significant variations in rates by neighborhood.

These issues have prompted over a dozen cities and water districts in my community to approve resolutions requesting an audit. These requests have focused on the Central Basin Municipal Water District (District), which serves portions of my district. The District provides wholesale water to cities and water companies in the communities they serve – many of which are home to my constituents. In recent months, the District has faced mounting criticism for monthly fees, surcharges, costs of projects and their benefits to communities, as well as the costs of the District's legal actions.

In order to gain a clear understanding of water delivery for Southeast Los Angeles County, I believe it is important to focus on a sample of wholesale and retail water suppliers throughout the area. Therefore, I am requesting that the State Auditor select no more than five water suppliers located in Los Angeles County, which should include two public wholesale water districts and three retail water companies. This will give policymakers a clear understanding of what contributes to water rates from the point when it is derived from the source to the time a customer turns on his or her tap. More specifically, this will provide an understanding of what customers are being charged, the entities that contribute to the water delivery service, the rates charged by each entity and the factors that contribute to these rates.



Should this audit be approved, it would be the first comprehensive evaluation of the water delivery in any portion of California. For several years, this state has experienced a severe economic recession and families face daily struggles of paying the bills and providing for their loved ones. With the rising cost of water and daily necessities, there seems to be no relief from these financial hardships in sight. Access to water is a basic human right and it is being threatened by unsustainable cost increases.

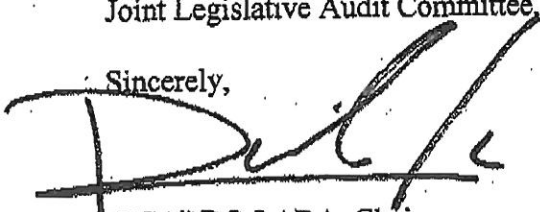
I am confident, as is every city in my Assembly District, that this audit will provide vital information on significant factors that contribute to water rates for this region and possible solutions for providing affordable and sustainable drinking water to many Californians. This audit could provide answers to the millions of residents in Los Angeles County and all Californians.

To the extent possible, I would like the State Auditor to review and evaluate the following:

1. Select a sample of no more than five water suppliers (two wholesale water suppliers including the District and three retail suppliers) that provide services in Los Angeles County. Identify the process and basis each supplier uses for establishing its water rates. Further, identify significant factors that contribute to the water rates each supplier charges its respective customers and any major differences in water rates charged by each water supplier.
2. For each water wholesaler and retailer, identify the changes in rates over a five year period and the reasons for any major changes in the water rates.
3. For each water wholesaler and retailer, evaluate a sample of expenditures over the last five years. Were those expenditures reasonable, appropriate and allowable (i.e. infrastructure projects, bonds and general operating costs)?
4. For each water wholesaler and retailer, identify any increases in its respective administrative costs and reserve amounts over a five year period. Identify the reasons for any major increases and whether they were reasonable and necessary.
5. Provide recommendations for streamlining and making water delivery more cost effective for the residents residing in Los Angeles County.

Thank you for your consideration of this request. Should you have any questions or would like additional information, do not hesitate to contact Cameron Valderrama, Chief Consultant to the Joint Legislative Audit Committee, at (916) 319-3300.

Sincerely,



RICARDO LARA, Chair  
Joint Legislative Audit Committee  
Assembly Member, 50<sup>th</sup> District