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Assembly California Legislature



ANTHONY RENDON, PH.D.
ASSEMBLYMEMBER, SIXTY-THIRD DISTRICT

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JOINT LEGISLATIVE AUDIT

February 5, 2015

Honorable Mike A. Gipson
Chair, Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Dear Chairman Gipson:

This letter requests that the Bureau of State Audits examine how the Central Basin Municipal Water District (Central Basin) operates, serves its region, and manages its public funding, to ensure the agency remains viable over the long term. Two million people rely on Central Basin for some part of their drinking water supply. Media reports questioning how the agency operates and expends public funds have impaired the public's trust, in Central Basin as well as in the other public water agencies in Southeast Los Angeles County.

In the last decade, Central Basin has lost credibility with the communities it serves, as it battled other water agencies in its region and its directors' actions were questioned. When created in 1952, Central Basin served only as a means to import a supplemental water supply, from the Colorado River and Northern California through the Metropolitan Water District (MWD). At that time, with a growing population, declining groundwater resources, and seawater intrusion into the adjacent West Basin, this part of Los Angeles County created a Water Replenishment District and two MWD member agencies to acquire imported water – Central Basin and West Basin. For many years, these agencies operated cooperatively, even under one management. In 2006, Central Basin and West Basin separated. Conflicts between Central Basin and the other agencies developed, which cost Central Basin substantial amounts of public funding. In recent years, media reports have raised additional questions about how its board members act and Central Basin spends its money.

Those local media reports led to discussions among elected officials representing the Central Basin region. Assemblymember Rendon worked with Los Angeles County Supervisor Don Knabe's office over the past two years and they were unable to resolve Central Basin problems. On June 3, 2014, the Los Angeles County Board of Supervisors called for a 90-day review of Central Basin. After releasing the report, the Board of Supervisors voted unanimously to ask that the State perform an audit on Central Basin. The Board's request letter, which accompanies this letter, raises serious questions about Central Basin's continued viability:

- Debt ratio coverage for bond commitments have been as low as 0.20.
- Sales of imported water from MWD continue to decline every year. Sales declined 9% in FY 13-14.

- Legal conflicts with other water agencies plagued the Board of Directors for more than a decade and resulted in substantial legal expenses, exceeding \$200K in some months.
- The Central Basin administrative fee, which is added to the costs of MWD imported water, more than quadrupled in 19 years from \$15 in 1992-93 to \$70 in 2011-12.
- The Association of California Water Agencies Joint Powers Authority terminated the agency's insurance policy when it failed to comply with the Joint Powers Insurance Authority's conditions for continued coverage.
- The recent termination of their General Manager also raised questions about procedure, as he made significant improvements to the operations of the agency. This action also undermined public confidence in the agency.

Other water agencies, noting issues with Central Basin management, recommended an independent management audit and development of a plan for Central Basin to address the continued decline of imported water sales.

To the extent possible, we respectfully request the State Auditor to perform an audit, covering the 5-year period from 2010-2015, that answers the following questions:

1. Identify the major categories of expenditures and any trends including, but not limited to, those related to legal issues and those not directly related to the agency's primary mission. What were the reasons for any major trends?
2. Does the Board of Directors exercise sufficient oversight of the agency's spending? Does the Board of Directors have sufficient policies and practices over its members' conduct and spending? What is the total compensation for each director and top manager?
3. Does the agency have adequate processes and controls over expenditures and other financial activities?
4. What public contracting procedures does the agency have in place, and does the agency follow these procedures in an open and public manner? Are these contracting procedures consistent with state law, and consistent with how other municipal water districts act?
5. For a sample of expenditures, determine whether they were allowable, reasonable, and consistent with the mission of the agency.
6. Identify the trend in revenues from customer rates and, to the extent possible, reasons for the trends.
7. What kind of strategic planning documents does Central Basin develop to keep the mission of the organization on track? How often are these planning documents revisited and updated to reflect new regulatory changes and monitor for milestones and areas for improvement?
8. How did the debt ratio coverage for bond commitments reach a low rating of 0.20, as reported in the County of Los Angeles report?
9. Do the agency's long-term cost and revenue trend lines show that the agency can remain financially viable over the long-term?

10. What reportable deficiencies were identified in the agency's annual financial audits and how did the agency respond or correct the deficiencies? Were these audits conducted by qualified, independent CPAs? How often does the agency change audit firms? Are the full reports publicly available?
11. Does the agency have qualified and sufficient management staff? Does the agency pay its managers salaries consistent with similar public agencies or municipal water districts in the region?
12. Does the agency have adequate resources and policies to deal with personnel issues?
13. Does the technical staff have sufficient qualifications and resources to maintain Central Basin infrastructure in good working order over the long term?
14. Is the agency consistently complying with all public disclosure and approval laws, such as the Brown Act, the Public Records Act, and Proposition 218? Does the agency issue public reports on all its spending?

Thank you for your consideration. If you need any further information, please contact Alf Brandt or Stacey Reardon in Assemblymember Rendon's office at (916) 319-2063.

Sincerely,



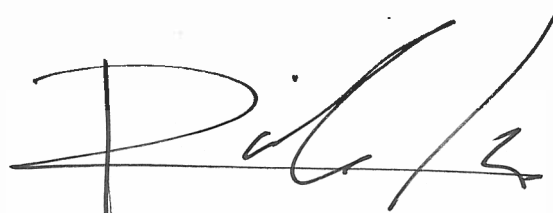
ANTHONY RENDON, PhD
Assemblymember, 63rd District



ED HERNÁNDEZ, O.D.
Senator, 22nd District



CRISTINA GARCIA
Assemblymember, 58th District



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Enclosures



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October 20, 2014

The Honorable Anthony Rendon
Assembly Member, 63rd District
State Capitol
P.O. Box 942849
Sacramento, CA 94249-0063

Dear Assembly Member Rendon:

REQUEST FOR STATE AUDIT OF CENTRAL BASIN MUNICIPAL WATER DISTRICT

For more than a decade, the news media has reported on the mismanagement, unethical practices, and questionable activities of the Central Basin Municipal Water District Board of Directors. These news agencies have included the *Los Angeles Times*, the *Whittier Daily News*, the *Pasadena Star News*, and others. Concurrently with these reports, Central Basin has received and continues to receive significant State funding from the California Department of Water Resources. The cloud of dysfunction confronting Central Basin threatens its ability to effectively serve its customers, undermines efforts to reform the agency, raises questions as to its use of State funding, and discourages other agencies from collaborating or partnering with Central Basin. Central Basin has the responsibility of serving water to more than 2 million people in 24 cities and unincorporated areas within the County of Los Angeles.

At our request, our Chief Executive Office and the Department of Public Works recently completed an investigation of the Central Basin and prepared the enclosed report documenting the issues at Central Basin identified by the local media, our constituents, and other local water agencies. The County staff report notes:

- Debt ratio coverage has been as low as 0.20.
- Sale of imported water from the Metropolitan Water District – the reason Central Basin was created in 1952 – continues to decline, 9 percent from Fiscal Year 2013-14.
- After more than a decade of legal conflict with other water agencies, legal expenses have exceeded \$200,000 in some months.
- The administrative fee Central Basin adds to the cost of purchasing Metropolitan Water District water more than quadrupled in 19 years, from \$15 in 1992-93 to \$70 in 2011-12.

The Honorable Anthony Rendon
October 20, 2014
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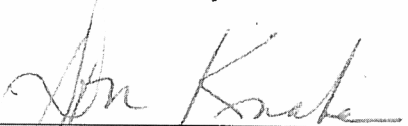
- The Association of California Water Agencies Joint Powers Insurance Authority terminated the agency's insurance policy when it failed to comply with the Joint Powers Insurance Authority's conditions for continued insurance coverage.
- Other water agencies recommended an independent management audit and development of a plan for Central Basin to address the continued decline in its imported water sales.

In the last year, Central Basin has made some improvements under a new General Manager. The Central Basin Board of Directors, however, recently fired that manager undermining public confidence and raising questions as to further reforms. Central Basin's use of State and public money continues to raise concerns as to the future of water supply reliability in its service area.


Based on the findings of this investigation and report, we request your assistance in arranging for the State Government to perform a comprehensive management audit of Central Basin's operational structure, business management, and alleged inappropriate use of funds. An audit by either the State Controller or the State Auditor could effectively answer questions as to Central Basin's continued viability. We are prepared to support the audit's recommendations to pursue any legislative and non-legislative actions necessary to reform Central Basin to effectively maintain water availability and services to the residents and businesses of our County within its service area.

If you have any questions, please contact Mr. William T Fujioka, our Chief Executive Officer, at (213) 974-1101, or Ms. Gail Farber, our Director of Public Works, at (626) 458-4002.

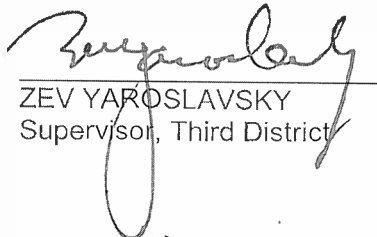
Sincerely,




DON KNABE
Chairman, Board of Supervisors



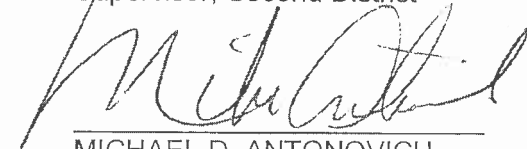
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