



OFFICE OF THE CITY AUDITOR
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**LB Water Department Cash Reserves Grow 566%
as Water Rates Increase by 31%**

Increase Primarily Caused by Failure to Implement Capital Improvement Program

Long Beach, CA – City Auditor Laura Doud today released an audit of the Long Beach Water Department which focused on the Department’s budget process and how it relates to the manner in which the Department determines rates for water and sewer customers in the City of Long Beach.

The audit found that the Department increased water rates by 15% in 2009 and another 16% in 2010. Additionally, from 2009 – 2012 the Department increased sewer rates by 56%. The main purpose of these rate increases was primarily to fund the Department’s Capital Improvement Program (CIP).

The audit also found that during this same time (between 2009 – 2012) the Department’s cash reserves increased by 566%. During Fiscal Years 2009 through 2011, the Water Department’s policy was to maintain reserves of \$6 million for water operations; however, those reserves now stand at \$43 million.

The report stated that the Department’s budget amounts varied significantly from actual amounts. It was noted that while budget shortfalls were being projected each year, even with rate increases, the actual revenues and expenses instead produced large surpluses. A significant portion of the difference was in the CIP. Project delays were not considered in the budgeting process, resulting in inflated budgets. CIP expenses for FY 2009 – FY 2011 were \$18.2 million below budget projections.

These facts led to the key finding that the Department was requesting rate increases to fund the budgeted CIP expenditures, but was unable to move its CIP projects forward, thereby increasing reserves that exceed its current policy. The report also found that the rate decisions made during this timeframe were based on projected budget numbers which had been overstated. Additionally, Management continued to project budget shortfalls for several years due to the forecasting of capital expenditures.

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"I commend the Water Department's outstanding efforts and success with water conservation and reducing water main breaks and sewer overflows; however, I am very concerned about their budget process and corresponding rate structure," said City Auditor Laura Doud.

The audit recommends the Department improve its budgeting process and its CIP expenditure planning by considering all obstacles to the successful implementation of its projects. Further, this will result in a more accurate analysis of whether there is a need for water and sewer rate increases, which will better serve Long Beach ratepayers.

The City Auditor's Office will recommend the City Council request the Long Beach Water Department's Management to update the City Auditor on the status of the audit recommendations within nine months in order to gain a clear understanding of the Department's progress in improving their budgeting process and CIP planning and management.

The full report with detailed explanation of the City Auditor's recommendations and management comments can be viewed on the City Auditor's website, www.CityAuditorLauraDoud.com.

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