

*Latino Issues Forum * Center on Race, Poverty and the Environment * Clean Water Action * Sierra Club California * Public Citizen * Defenders of Wildlife * Southern California Watershed Alliance * Butte Environmental Council * California Water Impact Network * Community Water Rights Project * Women For: Orange County * Alliance for Democracy * Friends of the River*

March 31, 2004

The Honorable Arnold Schwarzenegger
Governor
State of California
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

The undersigned social and environmental justice, consumer advocacy and environmental conservation groups oppose allowing private water companies access to California general obligation bond funds.

We would like to set up a meeting with you as soon as possible to discuss this issue.

As you may know, the Department of Water Resources, the Department of Health Services and the State Water Resources Control Board are currently drafting the general criteria for the distribution of Proposition 50 funds and are considering allowing private water companies to compete for grants.

Over the past year private water companies spent hundreds of thousands of dollars lobbying the state legislature to let them in on the bidding for \$3.4 billion in general obligation bond funds created by Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. If successful, their drive would be an historic and truly detrimental shift in public policy and a triumph for the very special interests that you pledged to root out of Sacramento during your gubernatorial campaign.

After a failed attempt last year to pass legislation opening up Proposition 50 money to private companies, in late February, the Legislative Counsel issued a legal opinion, requested by state Sen. Michael Machado (D-Linden), arguing that no bill was needed. The Legislative Counsel wrote that a private entity is eligible to compete for bond funds unless specifically excluded from eligibility under terms of a particular provision of the act; that is, where not expressly denied, access is implicitly granted. This is a misleading interpretation of the bond's intent and it is simply not good public policy.

Companies like Southern California Water Company and California-American Water Company (Cal-Am) buy water systems to make a profit. If these systems are outdated, broken or strained by groundwater contamination, the companies have a responsibility to find out and assume that risk knowingly. Cal-Am, owned by the third largest multinational water company in the world, the German-based RWE AG, has access to more than enough capital to conduct improvements without asking the cash-strapped and heavily-indebted state to give them a handout. Indeed, Cal-Am recently argued before the California Public Utilities Commission that their proposed buyout by RWE AG would benefit California ratepayers by giving them increased access to international capital markets.

Sen. Machado notes that private water companies service many Californians, especially in the southern San Joaquin Valley and residential areas like eastern Los Angeles County and that such communities—many of which are economically disadvantaged and unable to make critical investments to improve their water quality—deserve to benefit from Proposition 50. He has said that allowing private companies access to Proposition 50 funding would save some of the state’s poorest residents from rate hikes. This is an important argument; however, opening up public bond funds to the state’s largest water companies is not a good way to help these communities get funding.

The Department of Water Resources defines a disadvantaged community as “a community with an annual median household income that is less than 80 percent of the statewide annual median household income.” In 2001, the annual median household income was about \$48,000. Under this definition disadvantaged communities may be found in places like Tulare County, the fifth poorest county in the nation.

Communities like Earlimart (household median income \$21,299, 41.9% of the population below poverty the line), Cutler (\$24,330, 39.1%), Pixley, (\$23,304, 43.2%) and London (\$21,678, 44.5%) truly need access to Proposition 50 funds. These communities are not serviced by large companies with full-time lobbyists in Sacramento, but instead by local, often not-for-profit mutual water companies, or even irrigation districts with no legal requirement to provide potable water.

These economically disadvantaged communities will not benefit if Proposition 50 funds get siphoned off by companies like the Southern California Water Company (SCWC), which has spent over \$330,000 lobbying in Sacramento on Proposition 50 and other water issues. Giving SCWC taxpayer dollars to clean up perchlorate in the San Gabriel Basin, or to make improvements in their service areas like the Simi Valley (household median income \$70,370) does nothing to lower rates in the most disadvantaged communities.

The companies lobbying for access to Proposition 50 bond funds do not service the small and disadvantaged communities who most need the money. Opening up the bond funds to all private companies would make it much more difficult for these communities to compete, effectively privileging large, well-financed corporations. The funds should be limited to public agencies and, in the case of the disadvantaged communities such as those mentioned in this letter, not-for-profit mutual water companies. The responsible state agencies should write their guidelines such that the disadvantaged communities currently serviced by small,

not-for-profit mutual water companies not only have access to funds, but receive help in applying through outreach programs and assistance in grant writing. The state should not allow private water companies open access to Proposition 50 funds.

We look forward to working with you to protect and improve water quality for all Californians.

Thank you for your consideration in these concerns.

Sincerely,

Lynn Barris, Butte Environmental Council
Juliette Beck, Public Citizen
Elaine Booth, Women For: Orange County
Jennifer Clary, Clean Water Action
Steve Evans, Friends of the River
Connor Everts, Southern California Watershed Alliance
Caroline Farrell, Center on Race, Poverty and the Environment
Carolee Krieger, California Water Impact Network
Kelly McDonald, Defenders of Wildlife
Jim Metropulos, Sierra Club California
Nancy Price, Alliance for Democracy
Paola Ramos, Latino Issues Forum
Michael Warburton, Community Water Rights Project

cc: Hon. Bill Lockyer, Attorney General
Hon. Mike Machado, Chair, Senate Agriculture and Water Resources Committee
Hon. Joe Canciamilla, Chair, Assembly Water, Parks and Wildlife Committee
Donna Arduin, Director, Department of Finance
Kim Belshé, Secretary, Health and Human Services Agency
Mike Chrisman, Secretary, Resources Agency
Tom McCaffery and Rich Bayquen, Chief Deputy Directors, Department of Health Services
Lester A. Snow, Director, Department of Water Resources