

CASE STUDY: CITY OF ALHAMBRA

San Gabriel Valley
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Water for profit: unethical water sales by the city of Alhambra

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From June 2009 onward, the city of Alhambra has acted as a water retailer and has logged over \$10 million in profits to date. Given that Alhambra, like other cities, does not have an abundance of extra water to sell after serving its own residents, the business model is puzzling. It would also mean that the city is producing water at costs substantially lower than its selling price to neighboring cities. Upon closer examination, the city was found to be engaged in the unethical practice of selling imported water to its neighboring cities at rates as high as four times its purchase price while adding no value to that water.

It is often said that access to safe, affordable drinking water is a global right. The state of California has established several water districts throughout the region to help ensure this right. The local cooperatives charged with this responsibility in the West San Gabriel Valley are the San Gabriel Valley Municipal Water District (SGVMWD) and the Metropolitan Water District (MWD). These cooperatives work to ensure sufficient water supplies are available for their member cities throughout the valley, the city of Alhambra being one of them. It works this way: Each year the city has a certain amount of water rights for which it is allowed to pump out of the ground for their community. It is their water and is the cheapest option: the only costs are those associated with pumping it, treating it, and a small assessment fee. But the available groundwater supply below the city is never sufficient to meet demand. So the cooperatives work to import water from Northern California and the Colorado River to meet a city's needs.

Alhambra has managed to take advantage of differences in the cost of imported water between districts to turn a healthy profit. As a member of the San Gabriel Valley Municipal Water District, it is allowed to purchase imported water at a rate of \$130 per acre-foot.¹ It then sells this water to nearby cities that, as members of the other cooperative, the Metropolitan Water District,

have rates that are up to 4 times higher². The bottom line is that Alhambra buys water at \$130 per acre-foot and sells it to its neighboring cities at prices as high as \$528 per acre-foot.

There are several reasons why this is unethical at best. First, the city is effectively acting as a water retailer using imported water intended for their specific use only in times of need. That is, it is acting as a middleman by taking water that does not directly belong to them and selling it to others for a profit. And it does this while adding no value to that water.

Alhambra is serving as a middleman, selling subsidized state water for profit to other cities without adding value to that water. This is unethical for a municipality: water is a human right.

Take this hypothetical scenario: Say the state decided to distribute food vouchers to a given city for use by its residents only. And the city would only be allowed to distribute the vouchers once its own food supplies were depleted. But instead the city decides to sell its own supply of food to a neighboring city that did not have this benefit. It is able to sell it because it slightly undercuts the prices at the local supermarket. The city then uses the vouchers to buy food for its own residents, claiming that they did not sell the vouchers. The city claims that the neighboring city benefited because it got its food at a slightly lower price. It claims the region benefited because it brought needed food into the area. And that it benefited itself by making a healthy profit.

This is analogous to what is happening with water sales. The city is unethically benefiting from discounted water rates meant only for its own use in times of need. And its practice

From 2009, the city of Alhambra has been selling water to neighboring cities for a total profit of **\$10,576,835**.

Year: 2012

Amount of water sold: 9363 acre-feet
Cost of water from SGVMWD: \$130/acre-foot

Selling Price to buyer: \$519/acre-foot
Buyer: city of Arcadia, city of Monrovia, Valley County Water District, Golden State Water Co., San Gabriel Valley Water Co.
Profit: \$3,642,339

Year: 2011

Amount of water sold: 7580 acre-feet
Cost of water from SGVMWD: \$130/acre-foot

Selling Price to buyer: \$461/acre-foot
Buyer: city of Arcadia; San Gabriel Valley Water Co.
Profit: \$2,507,426

Year: 2010

Amount of water sold: 7580 acre-feet
Cost of water from SGVMWD: \$130/acre-foot

Selling Price to buyer: \$528/acre-foot
Buyer: San Gabriel Valley Water Co.
Profit: \$3,019,070

Year: 2009

Amount of water sold: 5120 acre-feet
Cost of water from SGVMWD: \$130/acre-foot

Selling Price to buyer: \$405/acre-foot
Buyer: Not listed
Profit: \$1,408,000

of serving as a water seller is questionable just as if it were to act as the local supermarket. And as a middleman, it is unethical for it to profit from sales: water, like food, is a human right.

Alhambra's water sales are also unethical in that it violates its contract with the state. As a member city of the San Gabriel Valley Municipal Water District, it is bound to the agreement that it will not sell water outside of its service area.³ This is the reason why we do not have such effortless revenue generation running rampant throughout the state.⁴

By acting as a water-for-profit retailer, the city of Alhambra is also putting itself at great risk of losing its credibility and trust among the water community. Water is a human right and should not be sold for profit by a municipality, particularly if no value is added

to that water. The ethical course of action would have been to sell the water to its neighboring cities at a rate that covers costs, including administrative overhead. And that water should only be sold in times of need, such as during severe drought or when events occur which affect the other city's ability to import water such as a downed pipeline.

Trust and credibility is no more important than in the convoluted world of water politics. Mark Twain once said that "whiskey is for drinking; water is for fighting over." The often-fragile relationship between water agencies can least afford an upsetting incident that threatens an already precarious equilibrium. The city of Alhambra's unethical actions add to its vulnerability. It currently benefits from the best of both worlds: it belongs to the San Gabriel Valley Municipal Water District with its low water rates⁵, and it also has a cooperative water exchange agreement with the Metropolitan Water District (also known as the "Alhambra Exchange Agreement") whereby it can take treated surface water deliveries from them in lieu of pumping from the ground. But there is a history of outside factions using the agreement (albeit blindly, as the exchange agreement benefits MWD customers as much as Alhambra) as leverage over talks of consolidating cooperatives whereby all cities would fall under MWD and Alhambra would lose its benefit of low water rates under the SGVMWD.

The gist: the groundwater basin below the city of Alhambra has a very difficult time getting recharged due to unique hydrologic conditions. When imported water is received and spread by its cooperative, the SGVMWD, the water is not able to reach Alhambra's portion of the basin due to near impermeable formations. So how does it get its groundwater replenished other than the little it gets through percolation from rainfall? It effectively takes water directly from the Metropolitan Water District in lieu of pumping by way of the Alhambra Exchange Agreement. The water taken from MWD is then repaid by SGVMWD at other locations with cost adjustments to account for the differences between treated surface deliveries and untreated water from the SGVMWD. Without this agreement, Alhambra would be without a means of getting its full water rights.⁶ So when looked at from this perspective, it is ironic that Alhambra is selling water to MWD member cities for a profit, and that water is coming from MWD's pipes.

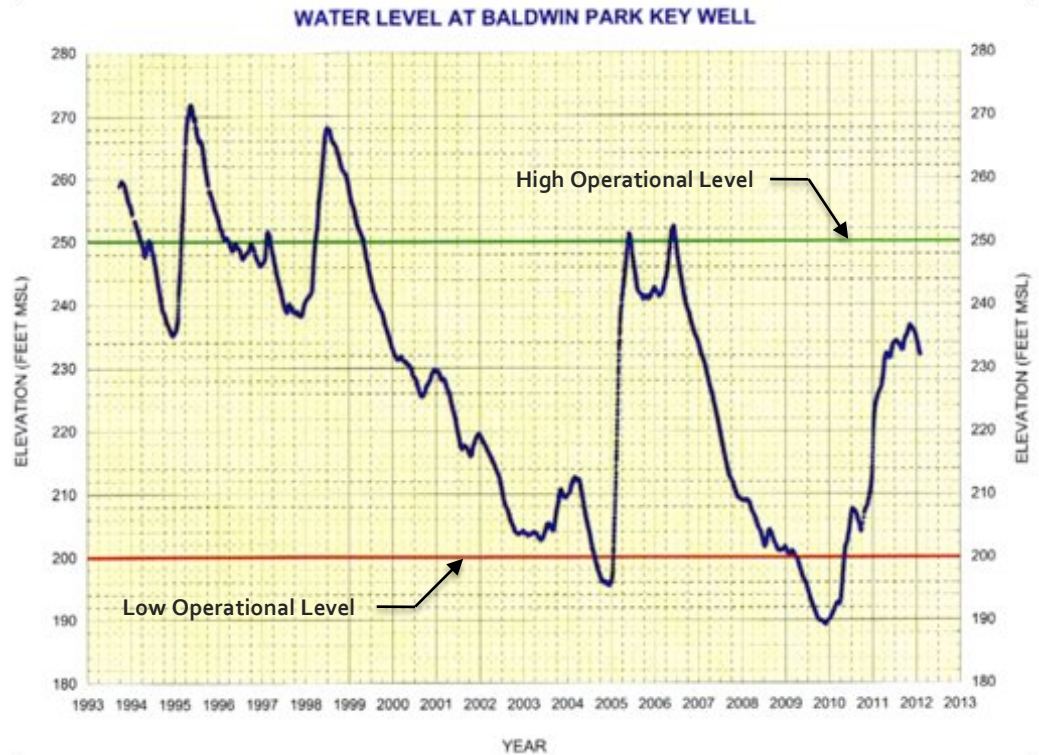


Figure 1
 Water level of the main San Gabriel Valley groundwater basin, as measured by the benchmark Baldwin Park key well, was at its lowest level in 20 years in 2009. The groundwater levels have since bounced back [reference: www.sgvnmwd.org/KeyWellElevChart.pdf]

Alhambra's actions are also environmentally unethical. By selling water for profit, it motivates its staff to sell as much water as possible. Notwithstanding the city's efforts within the last five years to provide public relations outreach on the importance of water conservation, from a regional perspective its actions negate these efforts by selling off the water it has saved.

The city claims it is providing a service to the region by providing imported water to others who are unable to obtain it from their own cooperative due to drought conditions. While this is arguable for the 2009 season, such conditions are no longer prevalent (see Figure 1). And even for those conditions, the ethical action toward neighboring cities would have been to sell at costs or provide the profits back to the cooperatives for all to share. Also, the regions adjudicator should see to a more equitable benefit. The city claims that it is doing a service to other cities by selling water to them at rates slightly below their usual rates from MWD⁷. But by doing this they are undercutting the other

cities' cooperative and threatening the trust that enables the Alhambra Exchange Agreement.

The city claims it is not selling its imported water, but rather its existing groundwater rights. This argument is not valid since such a distinction is not possible. And again, it is antithetical to the purpose of imported water and the concept of water conservation. Closer examination of the reasons for the price difference whereby Alhambra is profiting reinforces the specious argument. The imported water that the city of Alhambra purchases from its cooperative, the San Gabriel Valley Municipal Water District, is untreated water intended for groundwater replenishment. Yet it is selling water at rates that are consistent with treated water ready for the tap⁸. If it were truly its ground water being sold, Alhambra would back off from pumping by the amount it sold so that the city that purchased the water rights could then pump from the ground. Again, Alhambra would then be taking its imported water through MWD pipes since it has no connection of its own to surface water.

The actions taken by the city of Alhambra were found to be consistent of the city's leadership culture. As other incidents have shown, it is one that adheres to a parochial view in order to gain in the short-term, often by implementing unsustainable practices.

¹ An acre-foot is a measure of volume equivalent to an acre of water that is 1 foot in depth. It is approximately the quantity of water used by a family of four over the period of a year.

² The imported water rates for MWD have been high because they have only been offering treated water rates ready for the tap and not the cheaper, untreated water intended for groundwater recharge.

³ Upon inquiry to the SGVMWD in June of 2009, the district stated that it does not have any control over what cities do with their pumping rights.

⁴ The practice of water sales such as those being done by Alhambra is prohibited by California State Water Project contract agreements. But the study did find the city of Monterey Park also engaged in this practice starting in 2011. Monterey Park also belongs to the SGVMWD and enjoys the same privilege of imported water at \$130/acre-foot. The justification given at its July 20, 2011 council meeting where it was approved was that it was a short-term solution to combat drought conditions and had the blessing of the main San Gabriel basin Watermaster. Figure 1 shows this not to be the case as the basin had already recovered from the drought. And at the June 20, 2012 council meeting where the practice was again approved, no such justification was given. The only semblance of a justification given was "[it] will help reduce the risk that – in the unlikely event of over-pumping by the City – the overage fees charged by the San Gabriel Valley Municipal Water District or MWD will become excessive." This statement is irrelevant and is not a valid reason for its water sale practices.

⁵ The SGVMWD's water rates are subsidized by property tax assessments from residents of its member cities. Even so, its sales price of \$130/acre-foot is below its costs. It has decided to keep rates low to serve its member cities at the expense of reducing their reserves.

⁶ Alhambra is not the only water producer to benefit from the cooperative water exchange agreement (aka "Alhambra Exchange Agreement"). There are six other producers in the Western portion of the water basin who also benefit, all of whom are MWD customers. Because the surface connection is within Alhambra, however, it reduces its pumping of groundwater in lieu of those other six. The difference in costs between treated surface water and untreated water meant for ground replenishment (which is the type supplied by the SGVMWD at \$130/acre-foot) is accounted for to make it an equitable exchange.

⁷ The MWD overproduction assessment for 2012 was set at \$640/acre-foot. This was the cost for fully treated water. Alhambra sold water to Arcadia, Monrovia, and three other water companies at \$519/acre-foot. By undercutting MWD's rates, Alhambra has created a market for its water and generates considerable profit. Its cost for imported water is only \$130/acre-foot, but does not include any treatment costs.

⁸ The MWD rate for untreated water intended for groundwater recharge is about \$220/acre-foot, significantly less than Alhambra's selling price, which is about double that.