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Moody's: FEMA's Decision About California Dam Is a Signal to States and Localities

The federal agency may want governments to repair and replace aging infrastructure before it fails, but making California eat some of the repair costs could lead to more deferred maintenance on other projects, the ratings company said.

State and local governments can no longer assume the federal government will cover the costs of disasters it deems caused by deferred maintenance after California's request for \$306 million to repair the Oroville Dam was denied, Moody's Investors Service said this week in a report.

Heavy rainfall damaged the Northern California dam's spillway in February 2017, and the resulting flood risk forced the evacuation of 180,000 residents.

The Federal Emergency Management Agency notified the California Department of Water Resources on March 7 that only \$333 million of the \$639 million the state requested for repairs would be reimbursed. FEMA argued preexisting structural issues with the upper spillway should have been addressed before it failed—declaring those repairs ineligible for at least 75 percent reimbursement.

A [2018 forensic report](#) found systemic problems at the dam, starting with its design and construction but also with maintenance of the structure.

The state agency plans to appeal the decision to FEMA for itself and 29 local water contractors, wholesalers that supply treated water. But FEMA has made clear state and local governments should expedite repair or replacement of aging infrastructure before it fails, according to Moody's weekly credit outlook.

"Prior to the FEMA denial, localities might have anticipated reimbursement even for structures of uncertain storm preparedness," reads the report. "Having to demonstrate infrastructure sufficiency for natural disaster cost reimbursement by FEMA will increase the cost and complexity of local governments' disaster preparation and post-disaster recovery."

The agency doesn't intend to send messages with its decisions, Brandi Richard, spokeswoman for FEMA Region IX, told Route Fifty by email.

"We do encourage tribal, state, and local governments and homeowners to maintain and repair structures as a way to reduce the severity of damage caused by disasters," she added.

FEMA hasn't received the water agency's appeal yet, Richard said, and the appeals process could take up to 18 months. In the meantime, DWR plans to charge contractors \$42 million over the course of 2019 for the repairs.

Should FEMA reject DWR's appeal, the department will either have to absorb the repair costs, probably by tapping reserves, or pass them onto contractors and ultimately ratepayers. That could result in higher-than-expected water bills for 27 million people, about 70 percent of California's

population, according to the report.

Most of DWR's revenue, 50 to 55 percent, comes from the Metropolitan Water District of Southern California, which serves 19 million customers across Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties. The Metropolitan Water District's contract runs through 2035, and the district would likely be responsible for 45 percent of repair cost through that duration, according to the report.

DWR did not respond to a request for comment.

"We support [DWR] and recognize the agency has worked tirelessly to protect public safety and to successfully repair the Oroville spillways," said Jennifer Pierre, general manager of the association State Water Contractors, in a statement given to The Sacramento Bee. "We firmly believe that federally-required repairs to Oroville after a federally-declared emergency should qualify for full federal assistance."

To further offset costs, DWR may have to defer maintenance on other projects, according to the report, which could lead to another disaster.

"Our decisions to grant or deny funding are solely based on the laws and guidelines that govern our work," Richard said. "It is not our agency's intent to be unfair to our state and local partners. That's why we provide subject matter experts to help them submit projects for reimbursement."

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