Business in Dark On DWP Hikes

City feuding leaves companies up in the air.

Gary Toebben, chief executive of the Los Angeles Area Chamber of Commerce.

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L.A. businesses are worried that the highly publicized fight over power rate hikes between the mayor and the City Council is prolonging uncertainty surrounding the cost of power, making it harder for them to budget.

The spat took a turn for the worse last week, when it became clear that the City Council and the mayor-backed Department of Water & Power were unable to reach an agreement on rate hikes, delaying any increases until July.

"Well, just put it this way: I'm sure there's going to be a rate hike at some point, but whether it's July 1, I don't know. And what it's going to be I don't know," said Steve Hathaway, president and general manager of the Los Angeles Athletic Club, which would have been hit with a $70,000 annual increase under the mayor's initial rate hike proposal.

"We haven't budgeted for any increases this year, because there wasn't any indication that there would be at the beginning of the year. We'll have to base what we do on what comes down the pike from them," he said.

Businesses are faulting the DWP for not accepting a 4.5 percent hike approved by the City Council, which would have been enough to cover the department's increasing costs and to channel a small amount of money into investments proposed by the mayor into renewable energy sources and transmission.

Initially, Mayor Antonio Villaraigosa pushed for hikes as high as 28 percent on businesses, with some of the increases earmarked for those green investments. The DWP rejected the City Council's compromise of a 4.5 percent hike, which was endorsed by business groups including the Los Angeles Area Chamber of Commerce and the Central City Association, and pushed for a 5.7 percent increase that was finally rejected by the City Council.

"We are not happy. We had agreed to a compromise – many of our members and property owners didn't want to see an increase at all, but the responsible position was to say we agreed to a rate increase that would assure that the department's bond rating would not be affected," said Carol Schatz, chief executive of the Central City Association, which represents major downtown L.A. businesses and property owners. "In the short term, the good news is there's no rate increase, but in the long term, if the department's and the city's fiscal health are jeopardized, that has an impact on every resident and every business in the city."

Schatz said the mayor's initial proposal for towering increases on businesses would have cost large office towers and industrial facilities more than $1 million per year, with one of the biggest property owners downtown claiming it would be hit with $5 million more per year in power bills.

Gary Toebben, chief executive of the Los Angeles Area Chamber of Commerce, said some businesses were also worried that a downgrade of the department's bond rating would cost ratepayers more in the long run. On April 5, New York-based Fitch Ratings announced it would reassess a "AA-" rating for two DWP bonds worth $720 million.

Moody’s Investors Service announced April 6 that it downgraded the city’s credit rating from Aa2 to Aa3.

“In the end, we’d have to pay for that. You don’t get any more electricity, you just pay more in interest,” Toebben said.

The uncertainty created by the latest flap and the proposals of massive power rate hikes and city department closures are another example of city officials driving businesses away, said Stuart Waldman, chief executive of the Valley Industry and Commerce Association in Sherman Oaks.

“I can tell you that anyone who’s currently thinking about moving into the city of Los Angeles to do business has put those plans on hold until they figure out what it’s actually going to cost them,” Waldman said.

Slowdowns a worry

Another issue that has businesses worried is the possible slowdown in city services.

Even if the mayor is not successful in closing down nonessential services two days a week as he announced he would, some other delays could occur. Villaraigosa has tasked the city administrative office to draw up a shutdown plan.

Acting City Administrative Officer Ray Ciranna said the Planning and Building and Safety departments could be among those included in any closure plans.

“For those departments, it could be 50-50,” Ciranna said. “We have to sit down and talk to them.”

Businesses have long complained that the city’s permitting process already is slow and overly complicated. On April 2, City Controller Wendy Greuel released an audit of the Planning Department that found it hadn’t done enough to streamline processing permits.

Though closures may not happen, businesses are concerned about the potential impact of the city’s fiscal troubles on those departments moving forward.

“I’m sure it will impact my clients,” said Ben Reznik, a prominent land-use attorney with the Century City law firm of Jeffer Mangels Butler & Marmaro LLP who represents several major developers with projects pending in the city. “As it is, we are now experiencing delays in building permits and obtaining planning documents.”

Reznik said that most of his clients’ projects would be able to “weather the delays. … But clearly, the delays will cost them more money. There’s the carrying cost of the land and, if the delays are long enough, the higher cost of obtaining financing.”

Reznik added that some developers with highly leveraged projects might not survive lengthy delays in the Planning Department.

“It all depends on how much debt they have and when the debts are due,” he said.