

## SUMMARY

The California WaterFix Project (WaterFix) is intended to address environmental and water supply reliability issues related to pumping water from the Sacramento-San Joaquin Delta (the Delta). The Department of Water Resources (DWR) began collaborating with state and federal entities as well as local water agencies (water contractors) in 2006 to develop an approach to restoring the Delta and improving water reliability, referred to as the Bay Delta Conservation Plan (BDCP). In conjunction with developing the BDCP, DWR also initiated the Delta Habitat Conservation and Conveyance Program (conservation and conveyance program) to evaluate how to implement the BDCP, which included considering alternatives to the BDCP, performing preliminary design, and assessing environmental impacts. Through this evaluation, DWR identified one of the alternatives—referred to as WaterFix—as its preferred approach. WaterFix focuses on the construction of a new water conveyance facility to improve water reliability and separates the large-scale Delta restoration effort originally included in the BDCP into a separate program called California EcoRestore. Water contractors of the State Water Project and the Central Valley Project, and the U.S. Bureau of Reclamation have primarily funded the project planning efforts that began with the BDCP and that have now shifted to WaterFix. This audit report concludes the following:

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**Because of the unexpected complexity of the project, the planning phase has experienced significant cost increases and schedule delays.**

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The cost and timeline for preparing the BDCP increased because of the scale and unanticipated complexity of the project. In addition, costs of the conservation and conveyance program's efforts to evaluate and plan for the potential implementation of the BDCP and its alternatives, which eventually included WaterFix, also significantly increased. As of the end of June 2017, planning phase costs had reached approximately \$280 million.

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**DWR did not select appropriately its current program manager for the conservation and conveyance program.**

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DWR did not follow state law when it replaced the program manager for the conservation and conveyance program. Additionally, DWR did not accurately value its initial contract with the new program manager—the Hallmark Group (Hallmark)—or ensure that it received fair and reasonable pricing for one of Hallmark's subcontractors.

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**DWR needs to take certain steps to better prepare for the transition of WaterFix to the design and construction phase.**

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DWR has not completed either an economic or a financial analysis to demonstrate the financial viability of WaterFix. Furthermore, DWR has not fully implemented a governance structure for the design and construction phase of WaterFix. Moreover, DWR has not maintained important program management documents for WaterFix.

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## **Other Areas We Reviewed**

To address the audit objectives approved by the Joint Legislative Audit Committee, we also reviewed whether the State allocated any money from its General Fund to pay for the planning and design costs of WaterFix. We reviewed budget acts from 2006 through 2016 and found that the State did not allocate any General Fund money for the planning and design of the project. We also analyzed DWR accounting data, reviewed its 2008 management plan for the project, and interviewed relevant staff, and found that DWR did not use any General Fund money to fund the planning and design for the project.

## **Summary of Recommendations**

### ***Legislature***

To improve management of large and complex infrastructure projects, the Legislature should enact legislation requiring agencies to publicly report significant changes in the cost or schedule of such projects if they are expected to exceed their established budgets by 10 percent or schedules by 12 months.

### ***DWR***

To better manage large infrastructure projects, DWR should develop and implement a project-reporting policy requiring its management staff to document and justify decisions to proceed with such projects if they are expected to exceed their established budgets by 10 percent or schedules by 12 months. DWR should make these documented decisions and justifications publicly available and submit them to the California Natural Resources Agency for review and approval.

To fully comply with state contracting law, DWR should ensure that it competitively selects architectural and engineering consultants based on demonstrated competence and professional qualifications. In addition, DWR should document in the contract file its evaluation of the competence and professional qualifications of all contractors and any subcontractors that are added to the contract subsequent to the competitive selection process. Further, DWR should ensure that it retains adequate documentation in its contract files to support that contract prices are fair and reasonable.

To ensure that DWR manages WaterFix in an effective manner, DWR should complete both the economic analysis and financial analysis for WaterFix and make them publicly available as soon as possible.

To prepare for the potential approval of WaterFix and to ensure that the project is managed properly during the design and construction phase, DWR should do the following:

- Develop an appropriate governance structure so that it is prepared to oversee the design and construction of WaterFix in the event it is ultimately approved.
- Develop and update when necessary the associated program management plan for the design and construction phase of the project.

#### **Agency Comments**

DWR generally agrees with our findings and recommendations, although it disagrees with our conclusion that DWR did not follow state law in selecting the program manager. DWR also did not agree with our recommendation that it develop and implement a project reporting policy.