

Rick Spilsbury

The Watergrab Has Become A Multi-Billion Dollar Predatory Loan Scam



Want to know what the next big bank predatory lending scandals will be?
Hint, they'll have help from local insiders – pushing boondoggle municipal projects.

The Southern Nevada Water Authority (SNWA) Groundwater Development Project (Watergrab) is an excellent example. Even though water deliveries in Southern Nevada have gone down for the past three years, and no one is going without water, SNWA wants to start construction on the Watergrab *next year!*

This isn't about water, it's about money.

SNWA's **Ability to Finance Report** (page 36) estimates that the Watergrab will *only* cost Las Vegas households about \$57.91 a month – until the year 2078 (page 35) – projected worst case scenario. That's eventually \$700 per year, or a total of \$35,869.73 per household! (With corrections made for lower payments initially and payments towards other projects removed.) Sounds bad enough, but... we're being low-balled again. And bait and switched.

I won't go into how many times we've been lied to by SNWA here. But I will say that I personally expect more lies than truth from them. The half-truth list is very long. And the price just keeps on rising.

Will it continue to rise? Absolutely.

First:

All the while being less than forthcoming about the cost of construction of the watergrab pipelines and pumps, SNWA has never given us a price tag on the **cost of power** to

pump all that water south. Pumping water takes enormous amounts of power. And the price of power just keeps on rising.

For example: The California Energy Commission reported (in the report; California's Water-Energy Relationship) in 2005 that “California's water related energy use consumes 19 percent of the state's electricity, 30 percent of its natural gas, and 88 billion gallons of diesel fuel every year.”

That's a mighty big chunk of change to omit.

The cost of power to operate the SNWA watergrab pumps will be *huge*. But no one knows how huge, because we can't predict the cost of power.

Since SNWA hasn't shared accurate numbers for the consumption of power to commit the watergrab, I'll have to consider a likely scenario – SNWA power bills will likely be comparable to California's. Using California's statistics, we can estimate what Southern Nevadans might be expected to pay. I'll be conservative and ignore the natural gas and diesel consumption. That leaves 19 percent of Southern Nevada's electricity bill.

So, for a quick and dirty estimation; Las Vegas will be called upon to pay an even higher water bill to pay the watergrab **power bill** – maybe about 19 percent of their total power bill. The average Las Vegas power bill in Las Vegas is about \$135. That calculates to about \$30 a month more residents of Las Vegas could pay in water bill. (Remember your algebra. That's 19% of the new higher power bill. Not 19% of what they're paying now. $\$135/81\% = x/19\%$)

Which brings the **subtotal** household water bill **increase** up to \$88 a month more – to pay for power and to pay off multiple loans for the next 50 to 66 years. (That's over \$53,000 dollars per household.)

But that's not all.

Second:

No construction cost overruns were predicted. No cost overruns? Sure, there could be a miracle; and no cost overruns. But that isn't anywhere near an accurate prediction when you look at past SNWA projects. They've all had cost overruns.

(1990s) The second intake and Lake Mead had a 31% cost overrun.

$$(\$83 \text{ million} - \$63 \text{ million}) / \$63 \text{ million} = 0.317$$

(2000) The River Mountains water treatment facility had a 27% cost overrun.

$$\$31.3 \text{ million} / (\$146.6 \text{ million} - \$31.3 \text{ million}) = 0.271$$

(2007) The Springs Preserve had a 30% cost overrun.

$$(\$235 \text{ million} - \$180 \text{ million}) / \$180 \text{ million} = 0.305$$

And the cost overruns for the third water intake are still mounting. They already have a 10% cost overrun with only a third of the project completed.

Stuff happens. Cost overruns happen. We have to be prepared for that. But it looks like SNWA doesn't want us to think about that possibility.

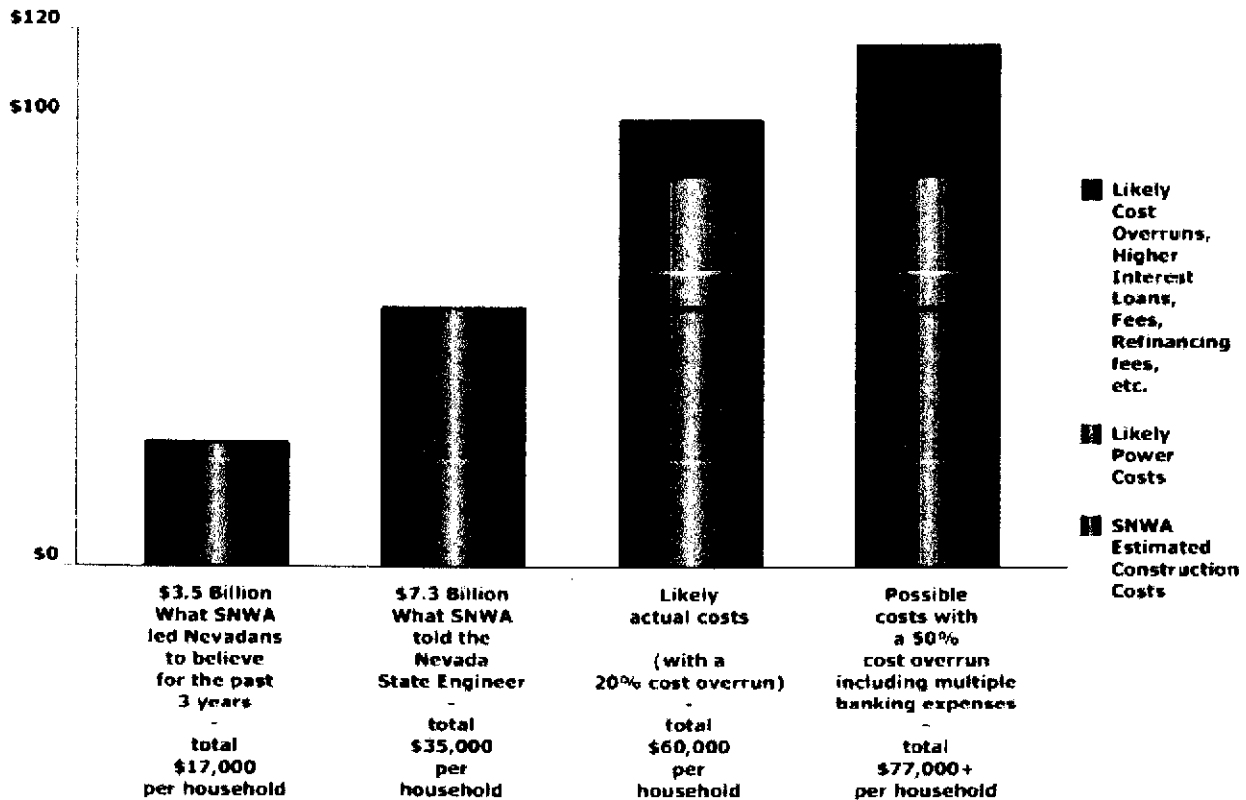
We've been consistently lied to about the cost of the project. For years, we've been told 3.5 billion dollars. But that's not what they told the State Engineer. They told him 7.3 billion dollars. I guess you could call that extra 3 billion dollars a cost overrun. (I see it more as a cover-up.) But the next big question is; is this the *last* cost overrun? ...SNWA haven't even gotten started yet. Not a chance.

It wouldn't be out of line to expect **at least** a 20 percent cost overrun. That would amount to at least another \$12 more per month, or \$144 per year – for the rest of most Las Vegas's lives. But it could be worse. Cost overruns are a huge financial risk (read higher interest rates) and potentially a huge burden on Las Vegas' economy. Someday, in order for ratepayers to continue to pay at the same level on these loans *and* cost overrun loans, SNWA might be forced to refinance some of their 30 year loans for a longer period. The fees for that can be very high. That's part of the scam. (Just add another decade of payments to the bill.)

So, add another \$12 a month to that water bill increase. Which leads to a probable worst case scenario *increase* in household water bills by **at least \$100 a month – \$1,200 a year – for at least 50 years ... which adds up to at least \$60,000.00 per household!**

Watergrab Cost per Household

Monthly Increase in Water Bills without Las Vegas growth or contraction



SNWA's argument is that this isn't as bad as it looks; because new people will move to Southern Nevada and help pay this massive bill. But don't expect rates to drop that much – especially if there are cost overruns and unexpected bank fees to cancel out any new source of revenue. In fact, the increase in Southern Nevadan's water bills will be so much that they might even chase many Las Vegas away. There is no provision in the SNWA plan to deal with a contracting Las Vegas population – except to raise the rates on those who are left.

The banks will insist on being paid – no matter what condition Las Vegas' economy is in, whether the pipeline delivers water or not, or even whether the project gets canceled half way through construction.

Of course, bankers have to make a profit too. And for every feature, you would expect a charge. But sometimes bankers just get out of hand. They can charge higher interest rates for financing the cost overruns. They can charge extra fees. They can get SNWA to refinance for longer terms – with more fees... etc. etc.

This watergrab smells *fishy*.

This project is risky, expensive, and unnecessary. Which makes it a candidate for being a massive con job... Follow the money.

A *likely* outcome that needs to be seriously considered is that Las Vegas could drown in debt for water they could get for much cheaper. This isn't just happening here. It's happening all over the country. Municipalities are getting themselves in way over their heads on boondoggle projects all across the Country.

There is a pattern of corrupt local officials working hand in hand with predatory lenders that has driven many U.S. communities to the verge of bankruptcy... And the ball is already in motion in Southern Nevada. Follow the money. It's leaving Las Vegas.

Here's an example of what a likely (real life) worst case scenario might end up looking like; Jefferson County, Alabama. A Jefferson County sewer project, that was originally estimated as low as 250 million dollars ended up putting their community over 5 billion dollars in debt! That's 20 times the original estimate! SNWA has been throwing around a cost estimate of 3 billion dollars for a few years now. Imagine, 20 times the original estimate. That would be **60 billion dollars!** Preposterous, you say? Maybe, but I'm sure that's what the people of Jefferson County, Alabama once thought too.

Nonetheless, this Jefferson County scenario does beg the question; how much is too much? 20 billion? 30 billion? 40 billion? For the executives at SNWA, there is no price too high. They have already committed hundreds of millions of dollars. The project is worthless until it is finished. And no matter how much cheaper desalination gets, they don't intend to quit now. It would be an admission of their poor management skills. And besides, they don't really care how much this project costs. It's not their money.

Now is the time to be on guard for a massive scam.

Big municipal projects have the perfect storm potential for multi-billion dollar cons. They're expensive, which means there's plenty of money to go around. One can spread the con over thousands, if not millions of ratepayers, thus maximizing windfall profits. And municipal representatives, not ratepayers, make the spending decisions. (Remember, representatives can be "influenced." The revolving door swings wide when there's big money involved. Just ask the former State Water Engineers who later worked for SNWA.)

Not surprisingly though, some Southern Nevada "representatives" won't have to be influenced. They already expect windfall profits from growth towards their own land "investments." This is how local politicians have been getting rich in Southern Nevada

for decades. They buy some cheap remote land, develop around it, and sell high.

It sure would be interesting to know who among the SNWA board, Clark County Commissioners, and City Councilmen has property alongside I-15 out to the California border (or in Pahrump, Coyote Springs, or out along the Tonopah highway). This seems to me like it would be a conflict of interest.

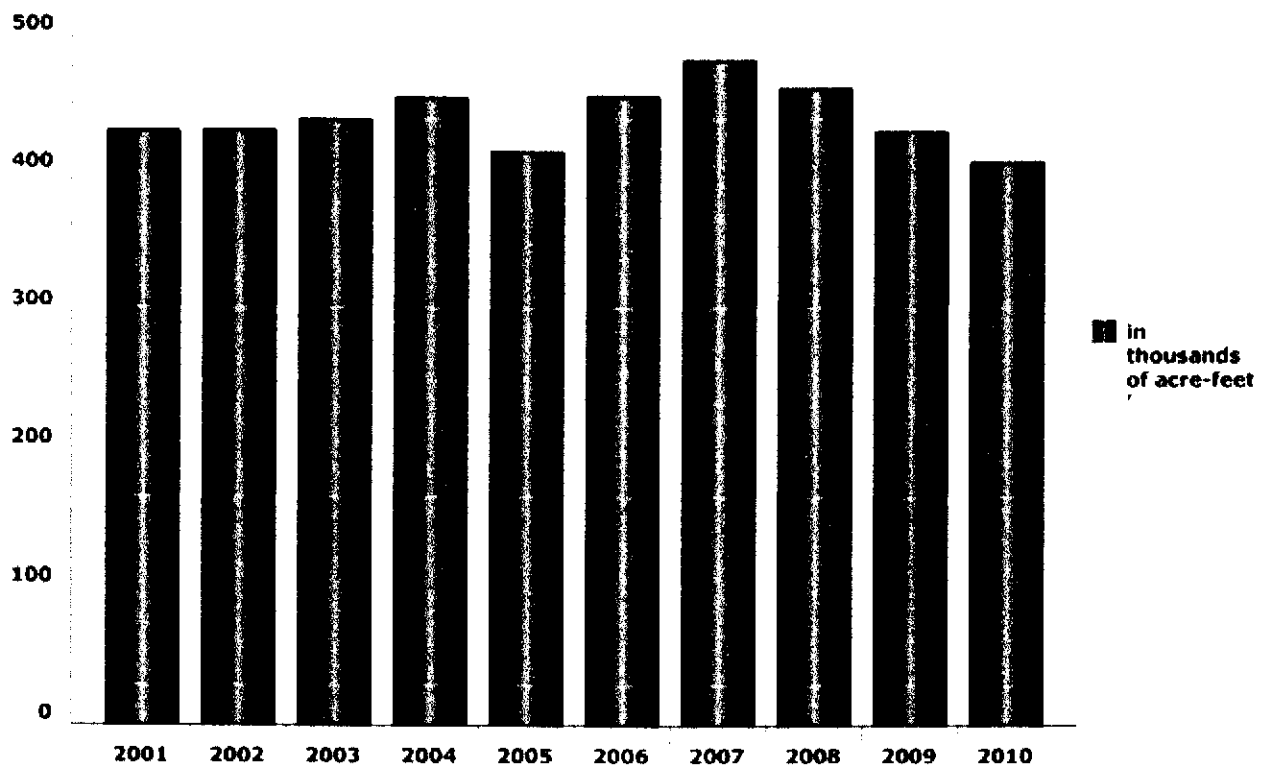
...But of course, this is all just the tip of the iceberg in this scam.

Third:

All of this debt that Las Vegans will be burdened with – all of this financial risk – all of this responsibility for so much environmental damage – will be to pay for water for *somebody else*.

The people of Las Vegas already have enough water. In fact, consumption has dropped for three consecutive years.

Southern Nevada Water Authority Water Deliveries



Even if water rationing restrictions were imposed, and the people of Las Vegas had to use 15% less water, they could comfortably handle it. So, what's the big panic? There

isn't one.

The watergrab is a back door maneuver to get the people of Las Vegas to pay billions for development, so greedy developers don't have to.

This is how old communities end up subsidizing new ones.

This is how the poor end up subsidizing the rich.

This is how the workers end up in debt to the bankers.

This is how the environment ends up ruined for us all.

Nevada is not a wasteland.

Let's be certain it never becomes one.

The Watergrab is not an act of a healthy democracy.

Obviously, even the people of Las Vegas would vote against this.

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