



Town of Apple Valley NEWS RELEASE

Town of Apple Valley **FOR IMMEDIATE RELEASE**

Contact: Kathie Martin, Public Information Officer

Phone: (760)240-7000 x 7070 Fax: (760)961-6242 E-mail:kmartin@applevalley.org

The Town of Apple Valley authorizes release of financial feasibility study for water company acquisition

Apple Valley, CA – October, 21, 2014: The Apple Valley Town Council today authorized the release of its *Financial Feasibility Analysis for the Acquisition of the Apple Valley Ranchos Water System*, a study commissioned to explore various financing options for the purchase of Apple Valley Ranchos Water Company (AVR).

Apple Valley is pursuing the purchase of AVR in order to gain local control over this important community resource and stabilize the ever-rising rates the Town has experienced over the past 10 years.

The study states, “It is thought that the operation of the utility under public ownership will be less expensive because of the elimination of profit, various taxes and other expenses incorporated into the current rate structure. Capital financing costs will be reduced though the ability of the town to issue tax-exempt bonds to fund new capital improvements. Public ownership of the system will make it easier for the Town to plan and will also provide greater accountability.”

In addition, the Town will be eligible for millions of dollars of state and federal grants to help with capital improvements, a funding source not available to private sector companies.

Methods of Acquisition

The study explores different methods of financing and purchasing AVR. The Town expects to hire an appraiser in November, to assess the value of the company. But a number of factors are already clear in terms of the viability of such a purchase:

- The Town has the capacity to purchase the water company at a fair price without endangering the financial health of the town.

- Operations would be less expensive, and future capital costs could also be reduced through the use of grants and/or tax-exempt bonds for new capital improvements. The money saved would stay in the community.
- Several methods for determining a fair purchase price as well as financing options would work well for the Town. For instance, if the Town purchased the water system at a fair price with one of the identified methods, the savings from eliminating the profit margin and other costs would be sufficient to cover the debt service without raising rates.

While a small amount of revenues to local governments would be reduced, each agency should see a net benefit as future rate increases are stabilized. It is likely that these cost savings will still make the acquisition attractive.

System Operations under Public Ownership

Quoting the study, if the Town acquires the AVR system, the sources of revenue would be essentially the same as they currently exist under AVR ownership, and the report assumes the current rate structure would stay in place. The primary source of revenue would be water rates and charges. There is also the potential under Town ownership that the request to the CPUC to increase rates 35% over the next three years could be eliminated.

Overall operating costs under Town ownership would be less than under AVR ownership. Public agencies do not earn a profit on utility enterprises. Under private ownership, a return on investment is allowed by the CPUC as a cost of service to be recovered with rates and charges. Currently, the CPUC has approved a 9.7% return on investment for AVR. A public agency does not pay federal income tax, state income tax, property taxes or franchise fees. A public agency typically does not budget for depreciation, which is a non-cash expense. A private utility includes depreciation in the revenue requirement to be recovered in the rate structure.

Status of the Park Water Company

The Carlyle Group (an investment firm based in Washington, D.C. and the current owner of AVR) has said Park Water Company, of which AVR is a part, is on the market and for sale. In fact, an announcement of a potential sale came in late September from Algonquin Power & Utilities Corp., a Canadian company, which said its regulated utility business, Liberty Utilities, agreed to acquire Western Water Holdings LLC — the holding company of Park Water under the Carlyle Group. Park Water Company also includes the Mountain Water Company in Missoula, Montana and Park Water Company in southeast Los Angeles.

Town officials have said that the potential sale of Park Water does not alter in the least Apple Valley's intent in acquiring the Apple Valley Ranchos water system. The regulatory process is

very lengthy, and in the meantime the Town is moving forward with efforts to bring local control and stability to local water rates.

#