

OUR TOWN

Town of Apple Valley, California

H₂Ours
Reliable. Stable. Local.

AVR'S TAX MYTH

System Acquisition Will Not Cost You More

The owners of the Apple Valley Ranchos Water Company (AVR) have tried to muddy the waters with claims that community ownership will increase your taxes. *Nothing could be further from the truth.*

Detailed and repeated financial analysis has shown – unequivocally – that eliminating AVR's 9.7% guaranteed profit, corporate overhead, property taxes and other costs will more than pay off the debt service when acquired by the Town, leaving additional money for infrastructure improvements and system expansion.

In fact, your household costs could actually decrease in the form of lower water rates, depending on how the acquisition process plays out.

Here are some other facts not shared by the for-profit company that owns our water system:

- Under Town ownership, any tax increase would require voter approval. The Town cannot simply raise your taxes in order to make ends meet.
- Through the Proposition 218 process, all water rate increases are approved by locally elected officials and are subject to the majority protest rights of the people. By contrast, AVR needs approval only from the California Public Utilities Commission to increase your rates or add costly surcharges to your bill.
- In the past five years, 58 cities in the United States have taken or retaken control of private water systems – a trend driven by out-of-control rate increases and lack of financial accountability to the communities those private companies serve.

The simple truth is this: Public ownership of Apple Valley Ranchos Water Company will cost you less.

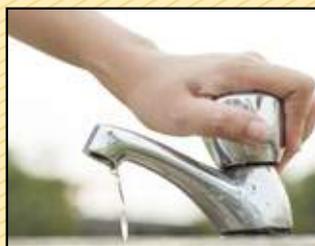
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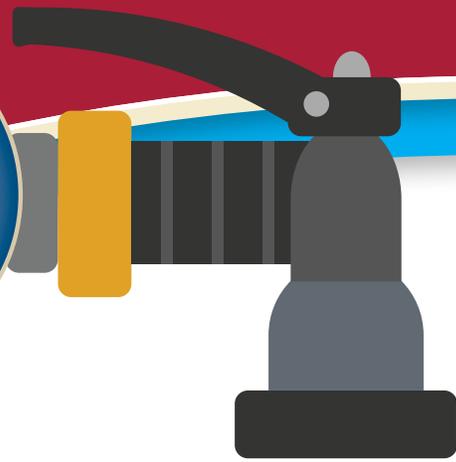
Preserving Your Right to Know

In November, the Town Council of Apple Valley unanimously agreed to move forward with eminent domain proceedings to acquire the Apple Valley water system currently owned and operated by Apple Valley Ranchos Water Company. Approval of the two resolutions of necessity followed years of exorbitant rate increases by the private owners of the system, making ours the most expensive water in the region.

This special edition of "Our Town" is designed to provide you with the facts about public ownership and the acquisition process. Transparency not only is our duty under the law, *it's our unflinching commitment to every citizen, business owner and stakeholder in our community.*

Many of you regularly visit our www.AVH2Ours.com website, where we strive not only to keep you up to date on the acquisition process, but to separate fact from myth. If you haven't already, click the "contact" tab on that website and sign up for our updates. You'll get more information on why acquisition is necessary, on what it costs the Town to battle AVR's incessant rate increases and on how the profit motives of its owners continue to cost you money.

We're not about protecting profits. We are all about protecting and serving you.



JUST COMPENSATION

What Apple Valley's Water System is Worth

The Town of Apple Valley has made an offer of just compensation totaling \$50.3 million for the system, based on an evaluation by an independent appraiser and expert in water system acquisition. Its corporate owners claimed the system was not for sale – to the Town anyway. Even so, they set their own value at \$400 million for their Park Water Company subsidiary, which includes Apple Valley Ranchos; Mountain Water Company, serving the City of Missoula, Montana; and Park Water serving several communities along the I-105 corridor in Los Angeles.

What is the system really worth? In Missoula, where the City Council is also seeking acquisition through eminent domain, the water system is comparable in size to Apple Valley's – each serving about 22,000 customers. The owners claimed that the Missoula system was worth far more (\$146 million) than the City's earlier purchase offer of \$65 million. As part of the eminent domain process, a three-member court-appointed panel has now set the value at \$88.6 million – a number much closer to what the City had offered.

Another comparison can be found in the announced sale of the three Park water systems – including Apple Valley and Missoula – to Liberty Utilities, a subsidiary of Canadian-based Algonquin Power & Utilities. Minus assumed debt, Algonquin's reported net cost for the three is about \$257 million – or about \$86 million per water system.

These numbers show that the actual value of the system is likely much closer to the Town's offer than what the owners had claimed. They also fall well within the Town's ability to purchase the system *without raising taxes while stabilizing, and possibly lowering, rates.*

WATER IS A BIG BUSINESS

There is a reason private investors such as the Carlyle Group and Algonquin are busy buying and selling water systems: Public infrastructure is big business.

According to a recent Los Angeles Times story, private equity firms raised \$32.4 billion in funds in 2014 for infrastructure opportunities – a huge increase from the \$3.6 billion they raised in 2005. These private investors typically require annual profits of 12 percent to 15 percent, usually at the expense of rate payers.

In the case of the Apple Valley Ranchos Water Company, flipping such an investment is lucrative as well. The \$257 million net price Algonquin Power & Utilities has agreed to pay to the Carlyle Group for its three water systems (see "JUST COMPENSATION") is more than double the \$102.2 million Carlyle itself paid for the systems in 2011.

There is a reason Algonquin and others want in on the action: They see money – and plenty of it – to be made off the backs of ratepayers.

RATES & PROFITS

Private Water Companies Charge You More

It's no secret that Apple Valley Ranchos Water Company customers pay the highest rates in our region. Recently, rate increases approved by the California Public Utilities Commission (CPUC) added 26.58 percent to the average Apple Valley Ranchos water bill – more than \$200 a year in additional costs, based on average water usage. This is on top of the 65 percent increases levied on ratepayers over the past 13 years, not to mention the many surcharges.

Private companies can do this by avoiding the kind of public scrutiny that community owned water systems are subject to. Instead, they fall

under the loose jurisdiction of the CPUC, which sees to it that private companies remain profitable.

In Ojai, Calif., where the town's water system is also privately owned, rates have increased an average of 8 percent each year over the past 22 years. In Claremont, the privately owned water company has doubled its rates since 2004.

As in Apple Valley, those communities are seeking to put a stop to the increases by acquiring their water systems through eminent domain.

EMINENT DOMAIN

Carlyle Left Apple Valley with No Choice

Eminent domain is a complicated process of last resort, something no government entity should take lightly.

The Town Council of Apple Valley approved resolutions of necessity – clearing the way for eminent domain proceedings – only after years of trying to convince the water system’s private owners to ease up on rate increases or sell the system back to the community.

The private owners steadfastly refused on both counts, making our water costs the most expensive in the region while further distancing themselves from the community they served. Their refusal to act in good faith reached its zenith when they implemented an additional 26.58 percent increase this fall.

Months of public hearings, financial analyses and environmental reviews preceded the Council’s November action, and as it now plays out in court, it could be years before acquisition is finalized.

‘MONOPOLISTS’

Private Water Companies are Not Representative of Free Enterprise.

In a recent ruling in favor of the City of Ojai’s use of public funds to take over its local water system, a California appeals court drew an important distinction between a typical company and government-sanctioned monopolies that own local water systems.

Apple Valley Ranchos Water Company does not represent free enterprise in the way one normally thinks of it. It has a monopoly, granted by the government. In concert with the CPUC, the company determines how much you will pay for its product and services and how much profit it will make. No other company is allowed to compete. As a customer, you aren’t given a choice – or a say. You can either pay Ranchos the rates set by the CPUC or you can leave town. That’s not free enterprise.

This becomes all the more important when the product being provided is as essential to life itself as water. Water should not be the subject of a private monopoly.

WORKING ON YOUR BEHALF

Refusal by the owners of Apple Valley’s water system to operate in good faith has cost the Town of Apple Valley plenty – above and beyond the actual rate increases paid for by all of us.

Since 2011, the Town has spent more than \$360,000 fighting those rate increases alone. Our intervention has made a difference. During the most recent rate cycle, more than \$13 million in new facilities and expensive replacement projects that would eventually have been paid by ratepayers were not approved as a direct result of the Town’s involvement.

The bottom line is this: Your Town government refuses to stand still while the Carlyle Group increases its profits at your expense.

Paying Back THE DEBT SERVICE

Detailed financial analysis shows that through elimination of the owners’ guaranteed corporate profits of more than 9%, corporate taxes that the town would not pay, and corporate overhead costs, the Town will have well over \$10 million per year to pay off the debt of acquiring the system.

That’s far more than would be needed to satisfy the bond debt on a \$50 million purchase price (roughly \$3.5 million annually) or even the \$88.6 million comparable valuation of Missoula’s, water system (roughly \$6 million annually).

In fact, it’s enough to meet the debt service on a bond in excess of \$130 million, while still investing in infrastructure improvements and stabilizing rates.

It is important to note that these calculations DO NOT include Apple Valley Ranchos Water Company’s latest 26.58 percent rate increase that went into effect on January 1, 2016.



Town of Apple Valley

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Apple Valley, CA 92307



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RECYCLED WATER

A key to successful and lasting conservation is a recycled water program. Unfortunately, Apple Valley Ranchos Water Company is threatening to block the Town from implementing a recycled water program.

The Town is partnering with the Victor Valley Wastewater Reclamation Authority on a multimillion-dollar facility that will produce 1 million gallons a day of quality recycled water. Even though Ranchos does not provide recycled water within its service area and has no plans to build a water reclamation plant, its corporate owners have threatened to sue the Town if it isn't allowed to act as the retailer. In other words, Ranchos wants to profit on something it didn't develop.

ECRWSS Postal Customer Apple Valley

ALL DOING OUR PART

The Town Has Aggressively Reduced Water Use

The state-mandated water restrictions require that residential customers of Apple Valley Ranchos Water Company reduce consumption by 28 percent from 2013 levels. Many of you have done more than your share, efforts that over the long-term will preserve this precious resource and essential element of life.

The Town, too, has taken aggressive steps to reduce water usage at public facilities, resulting in a reduction of 49 percent from July and August of 2013 to July and August of 2015.

- Removed 24,300 square feet of turf, trees and shrubs from Brewster Park in anticipation of construction for the WWRA Wastewater Treatment Facility.
- Reduced irrigation time clock runtimes by 30 percent system-wide and reduced irrigation timing at Norm Schmidt Park by 50 percent.
- Removed irrigated turf acreage at the golf course by 24 percent.

In addition, Public Works and Grounds staff are manually turning the irrigation systems on, station by station and actively searching for leaks on a weekly basis. When they locate a leak, they immediately repair them.

Conservation is everyone's responsibility, and we're proud to do our part.

AMONG THE CONSERVATION MEASURES WE'VE ADOPTED:

- Removed more than 5,200 square feet of turf at Civic Center Park and Town Hall and replaced it with decorative rock and shrubs with drip irrigation.

TOWN INFORMATION

TOWN COUNCIL

Art Bishop
Larry Cusack
Curt Emick
Scott Nassif
Barb Stanton

HOW TO REACH US (All numbers 760)

Emergencies 911
Police (business calls).....240-7400
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Town dispatch after hours.....961-6001
Town Hall240-7000

E-mail: AppleValley@AppleValley.org
Website: www.AppleValley.org

- [AppleValleyCA](https://www.facebook.com/AppleValleyCA)

CONTROLLING OUR WATER FUTURE

Acquisition of our local water system has benefits beyond rate stabilization. It allows our community to control our own water future, including, from a conservation standpoint:

- Providing a fully integrated comprehensive Town policy and decision-making that coordinates water service, planning, conservation, and policy with the Town's overall municipal services, land use, planning, infrastructure, and environmental review.
- Providing, for the first time, long term water planning with community input.
- Providing new opportunities for the study and potential implementation of local and coordinated ground water management and water storage.
- Providing new opportunities for the study and potential implementation of accessing environmentally sustainable water resources, such as recycled water, storm water capture, and the use of gray water.