



## CONDEMNATION CASE STUDY: REJECTING A HOSTILE TAKEOVER IN VISALIA, CALIFORNIA

The water system in Visalia, California, has been owned and operated by California Water Service (Cal Water) since 1926. Cal Water employs more than 60 water professionals in Visalia who together leverage more than 800 years of combined experience operating and managing water systems.<sup>i</sup>

In November 2015, the City of Visalia notified Cal Water of its intention to complete an appraisal of the water system, which is typically the first step in a condemnation, or government takeover, of the system.<sup>ii</sup> In response, Cal Water stated that its system was not for sale, “whether the City opts to spend taxpayer dollars on an appraisal or not.”<sup>iii</sup>

A handful of condemnation advocates in Visalia made several false and misleading statements in their efforts to pursue a takeover of the water system. For example, advocates touted a Regional Water Rate Analysis, which they argued showed that Visalia residents were paying too much for water service compared to neighboring systems.<sup>iv</sup>

In the face of these claims, Cal Water defended its record in Visalia, citing how the company had invested millions into the water system and that typical Visalia water bills had increased at a much slower rate than similar nearby communities.<sup>v</sup>

In December 2015, a public opinion survey showed Visalia voters opposed a government takeover of the water system by a margin of more than 3 to 1, with 77% agreeing that government agencies should not use eminent domain without serious cause.<sup>vi</sup> Recognizing the Visalia community was overwhelmingly opposed, city officials dropped the condemnation effort.<sup>vii</sup>

The experience in Visalia should serve as a cautionary tale for other communities, as it shows how condemnation proponents often present a dishonest takeover narrative to the public.

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### FALSE CLAIM: Water rates increased faster in Visalia than elsewhere.

The cost of water service has increased in Visalia, but not nearly as much as condemnation proponents argued. From 2011 to 2015, the typical customer in Visalia saw their total monthly water bill increase by about \$6.00. During this time, Cal Water invested millions in improvements to the water system to ensure it stays safe and reliable.<sup>viii</sup>

**77%**

Visalia voters  
**overwhelmingly**  
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with **77% opposing** the  
use of eminent domain  
without serious cause.

Many of the government-owned utilities cited by the “Regional Water Rate Analysis” had recently adopted or proposed substantial increases to their water rates that far outpace any increases seen in Visalia. For example, the City of Fresno adopted a series of rate increases in 2015 that in total will raise water rates 101%. Under the new rates, a typical Fresno customer would pay about \$51.00 for 14,212 gallons of water in 2019. A typical Cal Water customer in Visalia will pay about \$42.00 in 2019, or 21% less than a customer in Fresno.<sup>ix</sup>

Similarly, the City of Hanford proposed new water rates that amounted to a 112% increase. Under the new structure, a customer in Hanford would pay about \$41.00 for 14,212 gallons of water in 2019, essentially the same amount as a Cal Water customer in Visalia. The Regional Water Rate Analysis touted by takeover advocates in Visalia does not account for this 112% increase in water rates in Hanford.<sup>x</sup>

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**FALSE CLAIM: The cost of water service in Visalia was higher than in several nearby government-owned water systems, and costs would go down without Cal Water.**

Comparing the cost of water service in different areas is extremely difficult because there are so many differences between water systems. These differences include the number of customers, density of the service territory, water quality and treatment needs, and whether the utility is financially stable.<sup>xi</sup> For example, the City of Farmersville’s government-owned water system had been operating in a financial deficit because its water rates are, by the utility’s own admission, too low to cover costs.<sup>xii</sup> Allowing a system to operate at a prolonged financial loss is not sustainable and is a bad operating practice for any utility.

Two primary factors account for the difference in the cost of water service between Cal Water’s customers in Visalia and customers of nearby government-owned utilities.

- First, unlike government-owned systems, Cal Water doesn’t get extra revenue from other sources like property taxes or transfers from a general fund. This means that the water system in Visalia is supported entirely by the rates paid by customers. While on the surface the rates of government-owned utilities may appear lower, residents are providing other revenue streams, such as property taxes, that effectively subsidize the government-owned system.
- Second, Cal Water has invested more in improvements to its water system in Visalia than nearby government-owned utilities. From 2010 through 2014, Cal Water completed an average of more than \$8.48 million in improvements to the water system in Visalia each year.<sup>xiii</sup> By comparison, the nearby city of Porterville only spent an average of \$1.65 million per year on capital expenditures for its water system.<sup>xiv</sup> The city of Dinuba spent even less, averaging just \$131,000 per year.<sup>xv</sup>

Even if these investments are scaled by the size of the system, Cal Water spent far more on improvements per household served: \$207 per household in Visalia compared to \$101 per household in Porterville and \$23 per household in Dinuba.<sup>xvi</sup> These system investments ensure safe drinking water, cut down on service disruptions, and enable adequate water pressure in the event of a fire or other emergency.<sup>xvii</sup> If Porterville, Dinuba, and other nearby government-owned utilities made the same level of investments in their water systems as Cal Water, their customers would be paying far more for water service.

Because these two key variables are ignored, the water rate comparisons in the “Regional Water Rate Analysis” are wildly misleading. After controlling for these variables, the cost of water service in the nearby communities with government-owned water utilities would be either higher than or roughly equal to the cost of water service in Visalia.<sup>xviii</sup>

## Sources

<sup>i</sup>California Water Service, "About Cal Water – Visalia"

<sup>ii</sup>The Business Journal, "Cal Water: Visalia exploring 'hostile takeover' of water system" November 12, 2015.

<sup>iii</sup>The Business Journal, "Cal Water: Visalia exploring 'hostile takeover' of water system" November 12, 2015.

<sup>iv</sup>City of Visalia, "Citywide Update," as presented to the Visalia Economic Development Corporation on 18 November 2015; California Water Service, "Fact-Checking The City of Visalia's Regional Water Rate Analysis"

<sup>v</sup>Cal Water Press Release, "Cal Water Disappointed in City of Visalia Decision to Move Forward with Appraisal, Expresses Continuing Willingness to Collaborate with the City" December 21, 2015.

<sup>vi</sup>California Water Association, "Poll Indicates Voters Oppose City's Proposed Takeover of Cal Water's Visalia Water System" December 1, 2015.

<sup>vii</sup>The Business Journal, "Visalia backs down from Cal Water takeover" January 7, 2016.

<sup>viii</sup>California Water Service, "Fact Checking the City of Visalia's Regional Water Rate Analysis"

<sup>ix</sup>City of Fresno, "Schedule of Current and Proposed Schedule of Rates, Fees, and Charges for

Public Water Service," 2015; FOX26 TV (FOX; Fresno) "Water Rates In Fresno Are Going Up" 26 February 2015; California Water Service, "Fact Checking the City of Visalia's Regional Water Rate Analysis"

<sup>x</sup>City of Hanford, "Proposed Water System Rate Increase Summary," October 21, 2015; California Water Service, "Fact Checking the City of Visalia's Regional Water Rate Analysis"

<sup>xi</sup>M.K. Goetz, "Perception and the Value of Water: It's All Relative," Journal-American Water

Works Association, June 2014.

<sup>xii</sup>City of Farmersville, "Fiscal Year 2014-2015 Budget," June 23, 2014.

<sup>xiii</sup>Capital Expenditures are estimated by calculating the average cash outflows on capital investments reported in public documents. Line items for Visalia include: Additions on the Analysis of Utility Plant Schedule (excluding Undistributed Items); Construction Work-in-Progress listed on the End of Year Balances. Note: Capital Expenditures associated with the conversion of flat to meter have been excluded, as this is considered a one-time expenditure related to a public policy objective distinct from continued investment in water system infrastructure and maintenance.

<sup>xiv</sup>Capital Expenditures are estimated by calculating the average cash outflows on capital investments reported in public documents. Line items for Porterville include: Construction and Other Capital Projects and Purchase of Capital Assets.

<sup>xv</sup>Capital Expenditures are estimated by calculating the average cash outflows on capital investments reported in public documents. Line items for Dinuba include: Purchases of Capital Assets.

<sup>xvi</sup>Capital Expenditures are estimated by calculating the average cash outflows on capital investments reported in public documents. Line items for Visalia include: Additions on the Analysis of Utility Plant Schedule (excluding Undistributed Items); Construction Work-in-Progress listed on the End of Year Balances. Note: Capital Expenditures associated with the conversion of flat to meter have been excluded, as this is considered a one-time expenditure related to a public policy objective distinct from continued investment in water system infrastructure and maintenance. Line items for Porterville include: Construction and Other Capital Projects and Purchase of Capital Assets. Line items for Dinuba include: Purchases of Capital Assets. The total Capital Expenditures for each city was divided by the number of households.

<sup>xvii</sup>California Water Service, "About Cal Water – Visalia" and California Water Service, "What a City Government Takeover of the Water System Would Mean for You and Your Family"

<sup>xviii</sup>California Water Service, "Fact Checking the City of Visalia's Regional Water Rate Analysis"