



## **CONDEMNATION CASE STUDY: A RECORD OF BROKEN PROMISES IN FELTON, CALIFORNIA**

In 2008, activists pushed Felton, California community leaders into a government takeover, or condemnation, of the local water system. At the time, the system was owned by California American Water, a regulated water company that serves about 615,000 people in the state. The San Lorenzo Valley Water District (SLVWD) assumed control of the Felton water system through condemnation.

The record clearly shows that the promises and predictions of Food & Water Watch, Felton FLOW and other condemnation advocates proved to be wildly inaccurate. The acquisition of the water utility by the city cost six times more than estimated; the transaction and legal costs associated with the takeover cost more than twice as much as originally estimated; rates have increased three times faster than promised; residents will pay considerably higher taxes for 30 years; and the promise of “local control” has turned out to be meaningless.

The experience in Felton serves as a cautionary tale for other communities that may consider following activists down the condemnation rabbit hole.

### **ACQUISITION: SIX TIMES MORE EXPENSIVE THAN ESTIMATED**

Condemnation proponents initially estimated that the total cost for the city to acquire the Felton water system from California American Water would be \$2 million.<sup>i</sup> In the end, taxpayers paid \$13.4 million for the water system, **more than six times the amount activists predicted.**<sup>ii</sup>

### **TRANSACTION COSTS: MORE THAN DOUBLE ORIGINAL ESTIMATES**

In order to cover “the costs associated with the complex transaction of acquiring a water system,” Felton residents approved \$1 million in financing through its Series A Bond in 2008<sup>iii</sup>. However, in reality, these transaction costs totaled more than \$2 million.<sup>iv</sup>

### **30 YEARS OF NEW TAXES UNDER GOVERNMENT OWNERSHIP**

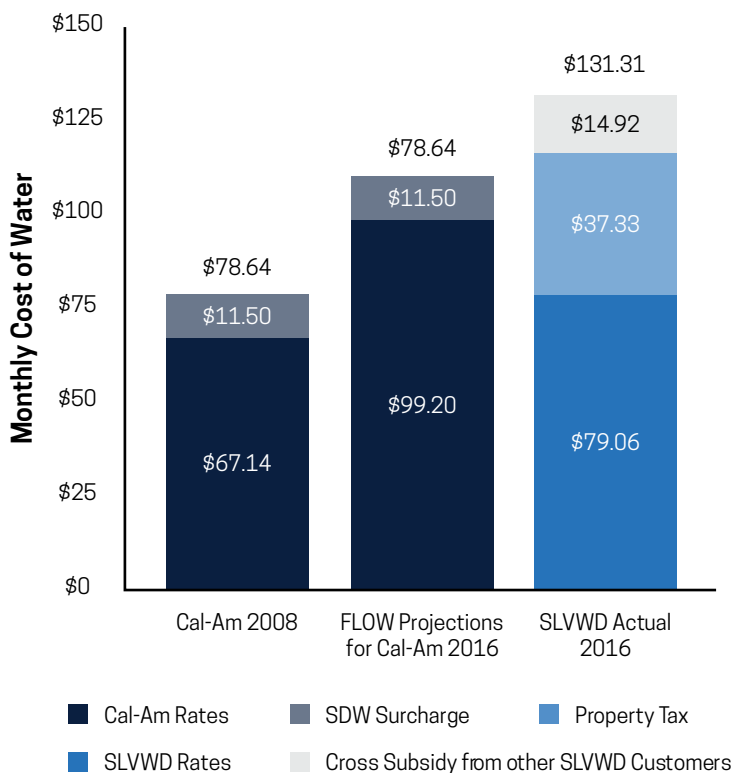
The average Felton resident will pay \$535 in new bond taxes annually for 30 years to finance the water system purchase.<sup>v</sup> Activists often ignore this fact when discussing the Felton condemnation.<sup>vi</sup>

### **HIGHER WATER BILLS UNDER GOVERNMENT OWNERSHIP**

Under California American Water ownership, a customer with a 5/8” meter consuming 10 CCFs of water paid \$78.64 per month.<sup>vii</sup> After the government takeover, that same customer paid \$85.00 per month for the same amount of water.<sup>viii</sup> Contrary to Felton FLOW’s claims, the direct financial burden on Felton customers increased immediately upon takeover.

## FASTER RATE INCREASES UNDER GOVERNMENT OWNERSHIP

Felton FLOW projected that water bills under government ownership would increase a total of 24% between 2008 and 2016, an average annual growth rate of 2.5%.<sup>ix</sup> In reality, water rates increased a total of 67% under government ownership between 2008 and 2016, an annual average increase of approximately 7%.<sup>x</sup> **In other words, under government ownership, water rates have increased about three times faster than condemnation proponents predicted.**<sup>xi</sup>



Notably, rates have increased faster under government ownership between 2008 and 2016 than the activists had predicted for the same period under California American Water ownership.<sup>xii</sup>

Looking ahead, even more rate increases are on the horizon in Felton. Bills are set to increase 37% to reach an average of \$111 a month by 2021, giving Felton customers the highest water rates in Santa Cruz County.<sup>xiii</sup>

### Notes:

[1] Assumes 10 CCF of consumption per month and 5/8" meter.

[2] FLOW assumes a 5% annual increase in Cal-Am rates.

[3] Cross Subsidy defined as Acquisition Costs not covered by Mello-Roos Bonds multiplied by the same share of SLVWD connections that are not in Felton.

[4] Cal-Am rates include a \$11.50 monthly surcharge for the California Safe Drinking Water Act Loan. Upon acquiring the Felton System, SLVWD assumed this loan. The loan payments have been borne by all SLVWD ratepayers ever since.

**Sources:** Felton FLOW Rate Calculator, San Lorenzo Valley Water District 2013 Water and Wastewater Charges Study; "History of Tax Rates-Felton CFD.xlsx." Received from Santa Cruz County Auditor-Controller; 2010 Urban Water Management Plan for San Lorenzo Valley Water District; Memo on California American Water Company Settlement Agreement from SLVWD Board of Directors to District Manager; San Lorenzo Valley Water District Schedule of Monthly Rates and Charges Effective 01/01/2016; California American Water Company Advice Letter

No. 688-A, April 18, 2008

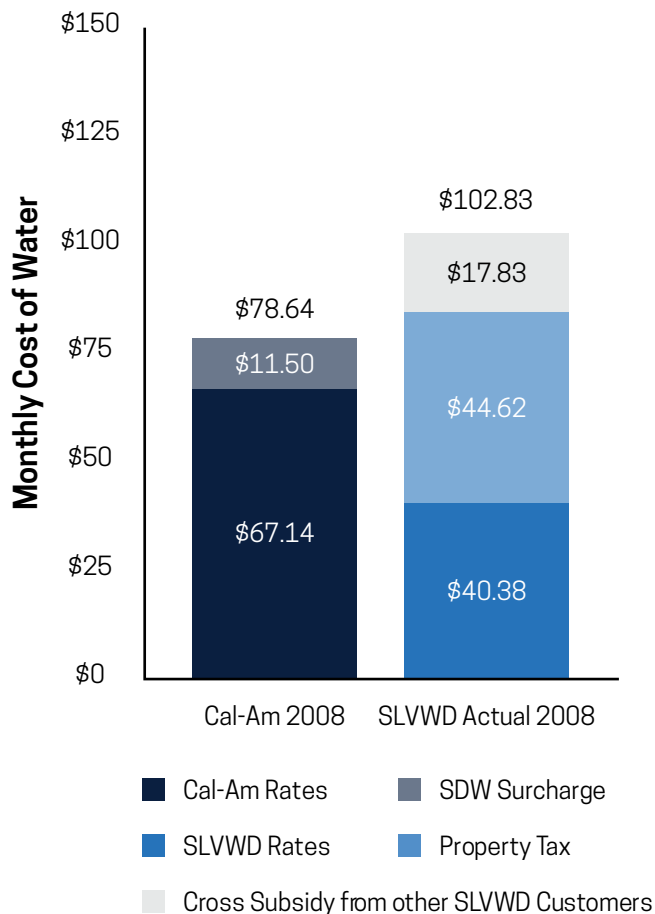
## NEIGHBORS PROVIDE SUBSIDIES

Activists convinced the San Lorenzo Valley Water District (SLVWD) to be the government entity to purchase the Felton water system. SLVWD had operated neighboring community water systems in Santa Cruz County since 1941<sup>xiv</sup> and agreed to fold the Felton system into its operations.

However, in the system acquisition process, existing SLVWD customer rates provided millions of dollars in direct support to Felton's condemnation effort.

Instead of fighting for months in court, California American Water and SLVWD settled on an acquisition price of \$13.4 million in May 2008.<sup>xv</sup> The \$13.4 million settlement included a \$10.5 million cash payment to California American Water and SLVWD's assumption of a \$2.9 million obligation on a Safe Drinking Water Act (SDWA) loan for the Kirby Street Treatment Plant.<sup>xvi</sup>

The bond that Felton residents approved to finance the acquisition of the water system (Measure W) allowed for the issuance of up to \$11 million in debt. After accounting for issuance fees and other costs, the bond provided



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The same thing occurred when additional rate increases were proposed by the SLVWD Board in September 2017 – 3,063 letters of protest were effectively ignored.<sup>xxiv</sup>

And when the San Lorenzo Valley Water District Board proposes additional rate increases, local residents can no longer rely upon a transparent California Public Utility Commission (CPUC) rate-setting process – where every three years a private system owner must prove in a court of law that its rates and costs are justified – to air their concerns.

approximately \$9 million in net proceeds for the acquisition, which was inadequate to cover the \$10.5 million cash portion of the settlement.<sup>xvii</sup>

Therefore, to fully fund the acquisition of the Felton water system, SLVWD compensated for the shortfall by paying \$1.5 million in cash from existing SLVWD reserves.<sup>xviii</sup> Separately, SLVWD provided an additional \$1 million out of its cash reserves to help pay for legal expenses and other transaction costs.<sup>xix</sup>

Without the benefit of these subsidies provided by existing SLVWD customers – the assumption in \$2.9 million in debt, the \$1.5 million acquisition shortfall cash payment, and the more than \$1 million cash payment to help cover legal fees and transaction costs – the average Felton customer would have faced an additional \$17.83 in costs per month upon takeover, for a total cost of \$102.83 per month under government control.<sup>xx</sup> This figure is a 31% increase over the cost of water service under California American Water ownership in 2008.<sup>xxi</sup>

### LOCAL CONTROL: A MEANINGLESS ASSURANCE

Critics argue that residents have more control over decisions now that the Felton water system is no longer under private operation, but this has not been the case. For example, in October 2013, the SLVWD Board of Directors proposed a rate increase and received 2,781 written letters of protest.<sup>xxii</sup> However, the Board was able to ignore this opposition because the number of letters fell roughly 900 short of the required 50%+1 margin of property owners needed to prevent the rate increase from being approved.<sup>xxiii</sup>

## Sources

- <sup>i</sup> “Vote No on Measure O – It’s A Risk You Cannot Afford,” Monterey Vote No on O Campaign, July 2014.
- <sup>ii</sup> “Vote No on Measure O – It’s A Risk You Cannot Afford,” Monterey Vote No on O Campaign, July 2014; Jim Mueller, SLVWD General Manager, Testimony, Monterey Water Forum, 28 February 2011.
- <sup>iii, iv</sup> Jim Mueller, SLVWD General Manager, Testimony, Monterey Water Forum, 28 February 2011; Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>v</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>vi</sup> Food & Water Watch, “Chicago’s Water Giveaway Latest in National Trend that Will be a Bust for Local Consumers” 20 April 2010.
- <sup>vii</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017..
- <sup>viii</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017; Notes: customer would pay \$40.38 on his or her water bill, as well as an additional \$44.62 each month in property taxes for debt service on the 30-year Mello-Roos bond used to acquire the system.
- <sup>ix, x, xi, xii</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xiii</sup> Santa Cruz Sentinel, “San Lorenzo Valley residents to pay most for water after rate increase” 27 September 2017.
- <sup>xiv</sup> San Lorenzo Valley Water District website, “About Us.”
- <sup>xv</sup> Jim Mueller, SLVWD General Manager, Testimony, Monterey Water Forum, 28 February 2011.
- <sup>xvi</sup> Memo to Board of Directors from District Manager, 30 May 2008; California American Water Company Settlement Agreement, p. 2; Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xvii</sup> Memo to Board of Directors from District Manager, 30 May 2008, California American Water Company Settlement Agreement, p. 2; Minutes of the Board of Directors Meeting, June 5, 2008, San Lorenzo Valley Water District, Motion to Approve Resolution No. 23, California American Water Company Settlement Agreement; Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xviii</sup> Memo to Board of Directors from District Manager, 30 May 2008, California American Water Company Settlement Agreement, p. 2; Minutes of the Board of Directors Meeting, June 5, 2008, San Lorenzo Valley Water District, Motion to Approve Resolution No. 23, California American Water Company Settlement Agreement; Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xix</sup> Memo to Board of Directors from District Manager, 30 May 2008, California American Water Company Settlement Agreement, p. 2; Minutes of the Board of Directors Meeting, June 5, 2008, San Lorenzo Valley Water District, Motion to Approve Resolution No. 23, California American Water Company Settlement Agreement; Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xx</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xxi</sup> Analysis Group, “The Economic Consequences of Contested Government Takeovers of Investor-Owned Water Utilities” January 2017.
- <sup>xxii, xxiii</sup> “Rate Increase Approved to Fund Emergency Preparedness and Water System Upgrades,” Press Release, San Lorenzo Valley Water District, 25 November 2013.
- <sup>xxiv</sup> Santa Cruz Sentinel, “San Lorenzo Valley residents to pay most for water after rate increase” 27 September 2017.