



CONDEMNATION CASE STUDY: BROKEN PROMISES, PROPERTY TAX INCREASES AND THE MYTH OF LOCAL CONTROL IN OJAI, CALIFORNIA

In 2011, activists in Ojai, California, began pushing for a government takeover, or condemnation, of the local privately owned, state-regulated and professionally managed water system. The activists claimed that a takeover was necessary because of unfairly high rates.ⁱ At the time, the water system was owned by Golden State Water Company, a regulated water company that serves nearly one million Californians.

Golden State Water invested more than \$18 million to maintain and improve the Ojai water system between 1998-2013.ⁱⁱ Rates funded these necessary ongoing investments, and any operator that properly maintained the system would have faced the same costs.ⁱⁱⁱ

Activists began coordinating a takeover attempt with the Casitas Municipal Water District (CMWD), a neighboring municipal water system with a history of providing foul smelling and poor tasting water to customers.^{iv} In August 2013, with the support of CMWD Board Members and staff, a Mello-Roos property tax increase (Measure V) was approved by voters. The property tax increases would repay up to \$60 million in bonds issued by CMWD to finance a takeover of the Ojai water system.^v

In their campaign to enact Measure V, activists made several predictions and promises that have turned out to be false. Most notably, activists underestimated the acquisition costs of condemnation, made deceptive rate predictions using incorrect assumptions, and pushed a shortsighted narrative on local control that has been proven false by previous takeover efforts.

In the end, instead of a protracted and costly legal fight, Golden State accepted an offer by CMWD to purchase the Ojai water system for \$34.4 million in April 2017.^{vi}

The experience in Ojai should serve as a cautionary tale for other communities, showing how activists can weave a dishonest narrative and lure citizens into supporting a condemnation takeover under false assumptions.



UNDERESTIMATED COSTS OF CONDEMNATION

Activists predicted that the condemnation would cost Ojai taxpayers “\$17 to \$25 million including legal fees.”^{vii} In the end, the acquisition cost of the system was set at \$34.5 million.^{viii} Including legal fees and other associated costs over the seven-year battle, condemnation advocates put the final total cost of the effort at \$60 million.^{ix} These costs could have been even higher had Golden State chosen to litigate the sale further rather than accepting the CMWD offer.

FALSE RATE PREDICTIONS

Activists claimed that water bills would drop and Ojai taxpayers would “save millions” after condemnation with CMWD as its water purveyor.^x Activists based these claims on the assumption that, because CMWD rates had only risen by 4% per year in the recent past, rates would continue on that trend and only rise by 4% per year in the future.^{xi} This was proven as fallacy when CMWD implemented a 12% rate hike in July 2017 and announced that rates would increase an additional 12% each year for the following four years.^{xii}

CMWD Director Bill Hicks explained the need for rate increases by stating, “Escalating costs of operations along with aging infrastructure contributed to the necessity of increased rates.” Ojai residents have pointed out how this is the very same explanation Golden State gave for the need for higher rates when the company operated the system.^{xiii}

Measure V, the ballot initiative Ojai voters passed in 2013 to allow a special Mello-Roos property tax to fund a purchase and takeover of Golden State’s system, did not include any guarantees on future water rates for Ojai customers.^{xiv} Therefore, any assumptions on future rates – like those pushed by activists claiming condemnation would generate savings – were not supported by the basic facts of Measure V. Today, Ojai customers are paying two bills for their water service: a bill from CMWD for water service plus the property tax increase to finance the water system acquisition.

The passage of Measure V has caused Ojai taxpayers to be charged two bills for water service: one from CMWD for water service and another to finance the water system acquisition costs.

LARGEST PROPERTY TAX INCREASE IN OJAI HISTORY

To finance the takeover, Measure V authorized up to \$60 million in bonds, secured by a recurring 30-year property lien on residents and businesses. In effect, Measure V passed the largest property tax increase in Ojai history, adding \$349 to \$2,093 in annual taxes per property for 30 years, depending on parcel size.^{xv}

In addition, Measure V allows the new special tax to increase by 2% every year and permits Casitas to raise the tax an additional 10% to compensate for foreclosures.^{xvi}

FALSE NARRATIVE ON LOCAL CONTROL

Activists claimed that Ojai residents would benefit from greater “local control” of the water system through condemnation, arguing that because CMWD is a public water agency subject to Prop. 218, citizens would gain the right to contest water rate increases.^{xvii} Takeover proponents have a history of citing Prop. 218 as a means for greater “local control” over utility rates in California.^{xviii} In practice, however, their claims have been proven wrong.

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For instance, in Felton, California, activists completed a takeover of the water system in 2008, claiming in their campaign that residents would have more control over the decisions of a public, government-run utility. However, “local control” hasn’t worked in Felton. The public utility proposed a significant rate increase in October 2013 and subsequently received 2,781 written letters of protest.^{xix} Yet, the utility ignored this opposition because the number of customer protest letters fell short of the Prop. 218 requirement (50%+1) to prevent a rate increase from being approved.^{xx} The same thing occurred when additional rate increases were proposed in September 2017. A total of 3,063 protest letters did not stop the rate increase.^{xxi}

CMWD is far less accountable to Ojai customers than was Golden State. As part of the CMWD system, Ojai ratepayers have just one representative on the five-member CMWD Board of Directors. Accordingly, Ojai ratepayers are now subject to the will of politicians they don't elect, without any third party or government oversight.^{xxii}

Meanwhile, for customers of water companies like Golden State, rates are set and investments are regulated by experts at the California Public Utilities Commission (CPUC). The CPUC requires private water companies to prove all expenditures are necessary and just every three years through a rate case proceeding. Public officials, citizens, and other interested parties may provide input and testimony during rate case proceedings with the CPUC, and the interests of ratepayers are protected by a strong ratepayer advocate.

Sources

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- ⁱⁱⁱ Los Angeles Business Journal, "Water company rains on Ojai's takeover vote" 2 September 2013.
- ^{iv} Ventura County Star, "Casitas water is safe despite funny smell, taste, officials say" 17 May 2013.
- ^v Ventura County Star, "Ojai water takeover gets outpouring of 'yes' votes" 27 August 2013.
- ^{vi} Ventura County Star, "Casitas reaches deal to acquire Ojai water utility" 7 April 2017.
- ^{vii} Ojai FLOW FAQ, March 2013.
- ^{viii} Los Angeles Business Journal, "City bottles water deal: Claremont's fight with Golden State ends in \$34.5 million system sale" 17 April 2017.
- ^{ix} Monterey Bay Partisan, "Ojai proved that water companies aren't invincible, maybe not even Cal Am" 12 September 2017.
- ^x "Golden State Claims," OjaiFLOW.com, accessed June 1, 2017; Ventura County Star "What Golden State fails to tell Ojai customers" 29 September 2012; Monterey Bay Partisan, "Ojai proved that water companies aren't invincible, maybe not even Cal Am" 12 September 2017; "Golden State Claims," OjaiFLOW.com, accessed June 1, 2017
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- ^{xii} Ojai Valley News, "Casitas Municipal votes to raise its water rates" 11 May 2017
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- ^{xvi} Ventura County Star, "Patrick R. Scanlon: Measure V holds risks for Ojai" 17 August 2013.
- ^{xvii} "Golden State Claims," OjaiFLOW.com, accessed June 1, 2017
- ^{xviii} See: Truth from the Tap case studies on Felton, CA, and Missoula, MT.
- ^{xix} "Rate Increase Approved to Fund Emergency Preparedness and Water System Upgrades," Press Release, San Lorenzo Valley Water District, 25 November 2013.
- ^{xx} "Rate Increase Approved to Fund Emergency Preparedness and Water System Upgrades," Press Release, San Lorenzo Valley Water District, 25 November 2013.
- ^{xxi} Santa Cruz Sentinel, "San Lorenzo Valley residents to pay most for water after rate increase" 27 September 2017.
- ^{xxii} <https://www.casitaswater.org/lower.php?url=board-of-directors>