



April 28, 2017

Mr. Scott Nassif, Mayor  
Mr. Frank Robinson, Town Manager  
Town of Apple Valley  
14955 Dale Evans Parkway  
Apple Valley, CA 92307

Dear Scott and Frank,

We are writing to formally inform the Town of Apple Valley that Assistant Town Manager Marc Puckett's presentation to the Town Council on Tuesday April 25, 2017 contains significant errors, omissions and an assertion for which there is no supporting evidence. We are bringing this to your attention so that Apple Valley residents can have the facts necessary to make informed decisions.

Mr. Puckett distributed a one-page reference sheet, also reflected in Slide 14 of his PowerPoint presentation to the Town Council. Mr. Puckett's claim that the Town can make \$11.9 million available to cover eminent domain acquisition debt service when the water system's gross revenues total only \$23.2 million annually is baseless. Following are the errors to be corrected:

**Operating Income:** Mr. Puckett claims that there will be \$4.2 million in what he calls operating income available to use for debt service. This is not true. Operating income is used to make capital improvements to the water system, which over the last five years has averaged approximately \$6.2 million. This money funds pipes, mains, fire hydrants and other ongoing system needs associated with providing safe, reliable water service through a Class A water system. Not only are there no savings, Mr. Puckett would need to identify an additional \$2 million annually to maintain the level of service that Liberty Utilities customers receive today.

**Intercompany Service Agreements:** Mr. Puckett claims that there is \$2 million available because of the cancellation of Intercompany Service Agreements. This is also false. These allocations provide services that the Town of Apple Valley would also have to provide, by hiring additional full-time employees or part-time consultants. These allocations take advantage of economies of scale to provide vital water operations and management services including but not limited to engineering, water quality experts, planning personnel, information technology, cost of service, billing regulatory compliance and rate design services at a fraction of their total cost. This also includes a small percentage of the cost for executive leadership that helps support local Apple Valley operations. The Town would likely have to spend more than Liberty to replicate this level of service, but even in a best-case scenario, there are no savings to customers if your goal is to provide safe reliable water service.

**Anticipated Corporate Office Savings:** This line item, estimated at \$2 million, simply doesn't exist. All corporate charges are reflected in the Intercompany Service Agreements category and, as noted, required to maintain reliable service. At best, it is a case of double counting, but that kind of fabrication isn't something one would expect given the Town's access to Liberty's financial information.

Finally, we would also note that Mr. Puckett did not account in his presentation for the loss of approximately \$200,000 in annual franchise fees the Town currently receives from Liberty Utilities. This information can be found in the Annual Report on Pg. 41 Schedule B-2 Line 28. Additionally, Liberty paid approximately \$16,000 in permit fees to the Town in 2015 which should also be deducted.

Ultimately, based on these significant errors, the suggestion that the Town of Apple Valley can finance an acquisition and maintain the same levels of service without substantial rate increases is without merit.

We would direct Town officials to the recent study conducted by Dr. John Husing. As you know, Dr. Husing has been the Inland Empire and High Desert's leading economic expert, trusted by government and the private sector, since 1962. Dr. Husing conducted a thorough, independent and conclusive review of Measure F and concluded that in the event that the Town is able to win an eminent domain lawsuit, the cost to customers to repay revenue bond debt and maintain the system would be at least \$500 more every year than what they are currently paying.

We appreciate the opportunity to provide this information to you so that Town Council members do not rely on erroneous information when making decisions to spend taxpayer dollars.

Sincerely,

*Greg Sorensen*

Greg Sorensen  
President, West Region

*Tony Penna*

Antonio D. Penna, Jr.  
Vice President/General Manager