

## Apple Valley's big day

Yesterday was a big day for Apple Valley. Federal Reserve System chairman Janet Yellen cost the Town roughly \$11 million, all by raising interest rates one-quarter of one percent.

The Town is in the midst of condemning Apple Valley Ranchos Water Company through a process that separates us from countries such as Venezuela only by virtue of the fact that the seizer has to pay the seizee. While the Town says Ranchos is worth around \$50 million, even the Town's own Blue Ribbon Water Committee warned in 2011 against the hostile takeover because the value of Ranchos — as determined by a court, not by the Town — might be as high as \$200 million. In the last four years, of course, Ranchos' maintenance and improvements have increased the value of the company well beyond what it was in 2011.

At the big presentation in April, the Town thought it might be able to get a general obligation bond at only 4.75 percent interest, which works out to \$1,043,295 in monthly payments over 30 years, with a total borrowing cost of \$175,586,082 over and above the \$200,000,000 principle. With the Fed's 0.25 percent increase in interest rates, though, the monthly payment on \$200 million is now \$1,073,643, and the borrowing cost increases to \$186,511,568. That's \$30,000 more per month, and \$10,925,486 more over the cost of the loan.

Also at the big presentation in April, the Town projected being able to pay between \$8.1 million and \$9 million per year for debt service out of revenues, for a shortfall of \$3.9 million per year if the deal were to happen before the end of this year.

Of course, by the conclusion of all the litigation surrounding this proposal, the Fed may have raised interest rates even further. If the rate reaches 5.3 percent, the borrowing cost will be as much as the amount borrowed, doubling the price of the acquisition. In any event, not one penny of the borrowing cost goes toward buying water, maintaining existing infrastructure, or expanding the system. For that matter, several millions of the acquisition cost will go toward transaction costs, underwriting costs, issuance costs, early-payment penalties on existing bonds, etc., not for a water system or water rights.

No wonder the Town stopped publishing its promised monthly transparency reports.

— *Greg Raven, Apple Valley*

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