

News Release

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**Apple Valley Ranchos: State Audit Affirms Distinctions and Differences of
Government-Owned and Private, Regulated Water Utilities**
***Audit Exposes Government-Owned Water Systems Deferring Vital Maintenance, Use
of General Fund to Cover Financial Shortfalls; “May Have Violated State Law”***

Apple Valley (April 30, 2015) – Apple Valley Ranchos Water Company announced today its response to the California State Auditor’s (CSA) Report, [Apple Valley Area Water Rates Differences in Costs Affect Water Utilities’ Rates, and One Utility May Have Spent Millions of Ratepayer Funds Inappropriately](#), noting that the findings affirm some important distinctions and expose some unpleasant realities for one government-owned water system in the High Desert.

“This audit confirms that Apple Valley Ranchos’ rates and supporting documentation are regulated, public, transparent and comprehensive,” said Tony Penna, vice president and general manager at Apple Valley Ranchos. “The audit covered a broad range of topics related to rates for water service in the High Desert.”

Apple Valley Ranchos is not “guaranteed” a rate of return, contrary to claims by the Apple Valley Town government. Page 23 of the CSA Report says: “As a part of the rate-setting process, the commission [CPUC] sets the rate of return, or return on investment, a utility can collect based on estimated future costs. The utility’s return is not guaranteed. If the utility incurs expenses greater than the estimates included in the rates approved by the commission, the additional costs may have to come out of the utility’s return on investment.”

As a regulated water utility, Ranchos has the *opportunity*, not a guarantee, to earn a rate of return on the capital invested to improve and maintain pipes, pumps, valves and tanks in the service area. During a rate case application, the California Public Utilities Commission (CPUC) and the Office of Ratepayer Advocates (ORA) review hundreds of pages of proof from Apple Valley Ranchos related to the return and there is no guarantee that the company will receive what it requests.

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The city of Victorville operates a government-owned water utility and may have engaged in inappropriate transactions that may have harmed its customers. In the cover letter of the CSA Report it states: “Although Victorville kept its water rates low, in part, by deferring maintenance, it implemented an increase in August 2014 and is likely to increase its rates in 2015. However, it might not have needed to raise rates if it had not undertaken some inappropriate transactions.”

The cover letter of the CSA Report goes on to say: “Specifically, beginning in 2009, Victorville loaned \$21.9 million in water customer revenues to an agency of the city of Victorville in two loans. During the same time, Victorville borrowed \$20 million from the Southern California Logistics Airport Authority, paying a higher interest rate than it received on the funds it loaned.” **The CSA Report also states on page 30. “While the loaned money was ultimately repaid, the loans resulted in harm to the ratepayers.”**

Government-owned utilities receive revenues from property taxes and connection fees that are not accounted for in their water rates, which essentially means the water bills of customers in both Hesperia and Victorville aren’t covering the total cost of water service. Those customers, and tax-payers, are paying for the costs, just not in their water bill. Page 25 of the CSA’s Report says: “In addition to not incurring certain costs, public utilities receive certain revenues that private utilities do not. These additional revenues allow public utilities to offset some costs and keep rates lower for customers. One of these revenues is property tax that customers of the water district pay.” On page 26 the report states, “Public Utilities can also collect fees for new connections to their utility service.”

Page 22 of the CSA Report also says: “Although public utilities may receive revenues such as property taxes or connection fees paid by its customers, these amounts are not incorporated directly into customers’ rates or shown on their bills.”

Victorville deferred vital maintenance. On Page 39 the report states: “In April 2014 the California Department of Public Health (Public Health) reported the results of an inspection of the water district system. The inspection letter notes that overall the water system inspected is adequately maintained and operated, but it indicates areas that the water district needs to address such as its reservoir inspection and valve exercising maintenance practices. In a staff report, water district staff also cited these results of Public Health’s inspection letter along with **concerns that the district is no longer in a position to continue deferring vital infrastructure maintenance and replacement activities.**”

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Hesperia’s taxpayers are effectively subsidizing the water rates without their knowledge since there is no specific discussion of how water rights were purchased by the city and who actually authorized payment for them. On page 22 of the CSA’s Report it notes “the city of Hesperia purchased water rights and leased them to its water district at below-market rates, which helps the district better manage its costs.” On Page 30 the CSA also states “Hesperia did not raise water rates because the financial assistance from the city of Hesperia allowed it to keep its costs low.” Again it is clear that public water utilities are subsidizing their water departments to keep water rates down and using other sources to cover the costs of water service.”

“Ranchos acknowledges that the audit concludes our costs per customer are higher than government-owned utilities but we assert that our costs take into account every penny of the costs to operate and invest in the water system,” Penna said.

Ranchos continually invests in the water system to ensure its reliability and safety and meets or exceeds water quality standards. Most government-owned utilities in the nation and California have deferred investment in water systems creating an enormous infrastructure gap for drinking water infrastructure in California alone that exceed \$44 billion according to the 2013 U.S. Environmental Protection Agency. It is not popular for elected officials to raise rates.

“Unlike what appears may be happening in government-owned water utilities as this state audit indicates, it is important for Ranchos’ customers to be confident the rates they pay for water service are authorized and set by an independent third party in a public, comprehensive and transparent manner,” Penna said.

About Apple Valley Ranchos Water Company Apple Valley Ranchos Water Company delivers safe, reliable water and exceptional service to about 20,000 connections, about 63,000 people, in the town of Apple Valley and parts of San Bernardino County communities. Additional information may be found by visiting avrwater.com.

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