

WATER ISSUES

IN

THE CITY OF CLAREMONT

2005

**THE LEAGUE OF WOMEN VOTERS OF THE
CLAREMONT AREA**

Claremont, CA

WATER SYSTEM OWNERSHIP AND WATER ISSUES IN THE CITY OF CLAREMONT

Report of the Water Task Force

December 2005

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HELPFUL CONVERSIONS

An acre foot of water would cover one acre to a depth of one foot.

1 acre foot = 43,560 cubic feet = 325,900 gallons

1,000 gallons = 133.68 cubic feet

100 cubic feet = 748 gallons

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INSERT

Where Does Claremont Water Come From? [a flow chart in color by Liz Allen]

WHERE DOES CLAREMONT WATER COME FROM?

Rain & Snow



**ABOUT HALF from
Mt.Baldy to
San Antonio Canyon Dam**



**Spreading Grounds below Dam
Percolates to underground aquifer**



Six Basins Watermaster

Allocates pumping rights



**Golden State Water Co. (GSWC)
Pumps from 19 local wells**

Cost to pump \$ 140/acre foot

**ABOUT HALF from
Northern California via
Oroville Dam and
Feather and Sacramento Rivers**



**Sacramento Bay Delta
Pumped through**

State Water Project Aqueduct



**by Metropolitan Water District (MWD)
Which wholesales imported water for
treatment by**

**Three Valleys Municipal Water District
at Miramar plant in North Claremont**

Delivery cost \$ 443/acre foot (2005)

GSWC

**Mixes well water from local wells with imported water from Northern California
And sends it by gravity flow
Through 151 miles of transmission lines in Claremont to
Your Water Meter**

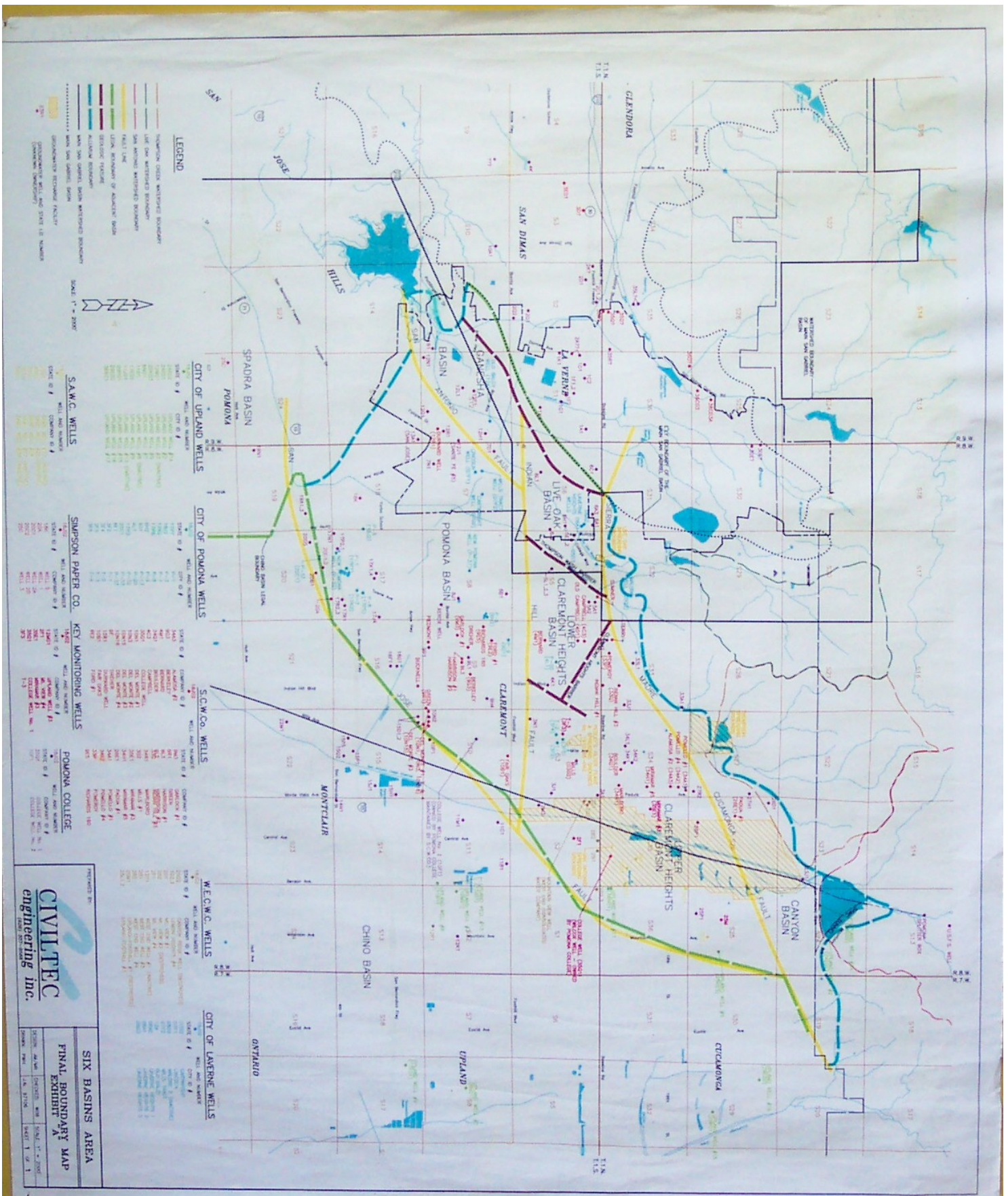


So that when you turn on a faucet in your house or yard



YOU GET WATER

SIX BASINS



The League of Women Voters of the Claremont Area appointed a Task Force to study water services and issues involved in the City buying the water company. We offer residents the results of this study. The report seeks to provide background information to help the public understand this policy issue important to all Claremonters.

Water System Ownership and Water Issues in the City of Claremont, 2005

The City of Claremont is considering buying the local water system from Golden State Water Company (GSWC)¹, the private company that owns our local water delivery system.

Is this a good idea?

Many factors influence the decision:

- **Most of our neighboring cities already own their water companies.**
- **Our rates seem higher, though GSWC says they are not when all factors are considered.**
- **City ownership permits local citizen control and input to this very necessary public utility.**
- **Buying now will be expensive. Bonds to finance the sale will keep water costs high until loans are repaid.**
- **Whether or not the City buys its water services, rates will continue to go up as population grows and pressure on supplies increases. Water issues are very complicated. How can you know enough to help decide?**

Read on!

¹ The Southern California Water Company announced that on October 1, 2005 it and two small California companies it owned would change their name to "Golden State Water Company." In this report we are using the new name, except when reporting past action in which the old name seems required for historical accuracy.

Introduction

A reliable and affordable water service is crucial to a community's well being and very existence. In dry California, water is a scarce and valuable resource. Water rights have been established in precise detail by use, law and court decisions. Some cities long ago set up city water companies (nearby ones include Pomona, La Verne, Upland, Chino, Ontario, Los Angeles) which have wells, rights to pump, delivery mains and all the necessary legal agreements and infrastructure to bring water to their residents.

In its early days, Claremont residents undertook the development of local sources of water. Wells were dug or drilled. Pomona College owns two wells that still provide quality water to Claremont. An early professor at Pomona College was instrumental in building a dam about ten miles above town in a narrow part of San Antonio Canyon, both to impound water and generate electrical power.



Figure 1. Artesian Well

The Pomona Valley Protective Association (PVPA) was organized in 1906 by citrus growers and local well owners to manage flood water flowing out of San Antonio Canyon so that it would regenerate underground supplies and not be lost in run-off to the sea. PVPA developed the San Antonio spreading grounds of approximately 1000 acres reaching from the mouth of the canyon to Baseline Road, an area lying in Los Angeles and San Bernardino Counties. This cooperative effort brought together approximately 80% of the area owners of water rights. PVPA was incorporated on April 17, 1910.² Early Claremont had artesian water, at least in wet years. (See Figure 1.) There was an artesian well in Memorial Park when the city bought that land in 1947; its water was used for several years to irrigate the Park.

Later Claremont Domestic Water Company cooperated with the City of La Verne in buying Colorado River water which the Metropolitan Water District brought from Parker Dam to Lake Matthews. When changed policies made that source of water unavailable, Claremont Domestic Water Company sold its water system to Southern California Water Company (SCWC), an investor-owned company, while LaVerne continued their City Company. In the following years, SCWC grew large by buying mutual water companies and individual groundwater rights as housing and commerce replaced agriculture throughout the Pomona and San Gabriel Valleys.³

A number of times over the years the City of Claremont considered acquiring its water system, but each time decided to stay with Southern California Water, concluding that the City did not have the money for purchase. However, as water rates continue to rise and the issue of local control becomes more critical, city officials and some citizens say that such issues as high rates and an inequitable pricing structure and globalization of water companies impel them to reconsider the need for local control. So Claremont once again is considering buying its water system.

Where Does Claremont Water Come From?

Local wells and imported water from the State Water Project purchased from the Metropolitan Water District (MWD) are presently the two sources of Claremont's water. The agency that owns and pumps the wells and delivers water to home and businesses is a private corporation, the Golden State Water Company.

² League of Women Voters of Claremont, *Claremont, Profile of a City*, 1994, p. 56.

³ *Ibid.*, pp. 54-55.

Wells and the Pumping of Groundwater

Approximately 50% of Claremont's water now comes from wells. The proportion varies from about 60% to 40% with rainfall and season of the year. The wells tap into the Six Basins Aquifer which lies under Pomona and San Gabriel Valleys.⁴ The name "Six Basins" applies to the groundwater pools which collect rainwater and melted snow as it seeps into the ground of the San Antonio Canyon watershed or is held behind San Antonio Dam. The U.S. Army Corps of Engineers built the present dam after a disastrous flood swept great boulders down the streets of Claremont in 1938. Designed for flood control and regeneration of the underground supplies, it is still maintained by the Corps of Engineers. Three Valleys Municipal Water District releases water stored behind the dam on instructions of the Six Basins Watermaster.

Six Basins Watermaster is not an individual but the official agency that oversees use of the aquifer. Entities that own water rights in the Six Basins Aquifer have votes in the Watermaster, proportional to their rights. All the water from Six Basins was "adjudicated" in 1999. In that judgment Claremont was awarded 2.8% (in 2005 about 471 acre feet), which the City owns and currently leases to Golden State Water Company. GSWC owns 34.7%, and Pomona College and neighboring cities and water owners the rest. The so-called safe yield that can be pumped from this basin ranges from about 16,000 to 21,000 acre feet per year, depending on precipitation. The amount is set each year by the Six Basins Watermaster; in 2005 it has been 16,500 acre feet.

Water released from the dam flows into the **Groundwater Recharge Facility** (also called the San Antonio Spreading Grounds) owned by the Pomona Valley Protective Association. (See Figure 2.) GSWC is the largest shareholder with 48% of the shares. Initially PVPA maintained and administered the spreading grounds and the water distribution. Today it retains ownership and a minimal maintenance function, but plays a less significant role since the Six Basins Watermaster oversees the adjudicated water apportionment. Three Valleys Municipal Water District handles the administrative function of the PCVPA under

The recharge facility —the spreading grounds— is the undeveloped rock-strewn area extending below the dam in Claremont. Water released from the dam percolates into aquifer, flowing underground into the six basins. Surface purified by natural means in this process. Most basins lie 300 and 500 feet underground amid deep deposits of sand gravel, separated largely by earthquake faults. The Canyon just below the San Antonio Dam, is at the highest and water flows successively into five lower basins — Claremont Heights, Lower Claremont Heights, Pomona, Oak, and Ganesha Basins. Some of the water also flows southwest to Spadra Basin and southeast into Chino Basin when full, flows into the aquifer under Orange County or the ocean. The proportion of water flowing into other from the dam is normally minimized as it can be controlled at the point of release into the spreading grounds, about two or three months some of the water becomes artesian in Claremont, so the to release only an amount that the basins can hold.



now
contract.

north
the
water is
between
and
Basin,
elevation
Upper
Live

which,
even to
basins

grounds. If too
later
effort is

⁴ An excellent large Map of the Six Basins Area with locations and lists of well ownership in these basins is available from the Watermaster. A large copy is in the League Office. See also page vii of this report.

GSWC officials report that they pump close to their full allotment from Six Basins. Water from most of the wells serving Claremont needs no further treatment, other than to be disinfected (chlorinated). Four wells are at present inactive because of contaminant issues. Some have a nitrate level (from orange grove fertilizers applied years ago) too high for direct use without purification or blending. Recently one was temporarily withdrawn from pumping because of contamination by the gasoline additive MTBE (methyl tertiary butyl ether). Removal of nitrate from wells has been so expensive that some wells were inactivated. However, with current technology wellhead treatment is possible at an estimated cost approaching \$1 million per well. With the rising cost of water, and increasingly stringent water quality regulations, wellhead treatment has now been implemented at one well.

Wells for the City of Claremont

Claremont does not own any wells. Golden State Water Company (GSWC) owns 23 wells in this area, counting the four which are currently inactive. It contracts with Pomona College for water from their two wells. Other wells are owned by the cities of Pomona, La Verne, Upland and a few private water companies. (See Figure 3.) The number of wells withdrawn from active use changes, so the count in use varies. Sometimes old wells have to be rehabilitated or new wells drilled--both of which are expensive processes. Wells are tested regularly and must pass rigorous EPA and state standards for water quality. Well water now costs approximately \$140 per acre foot to put into the transmission system.⁵

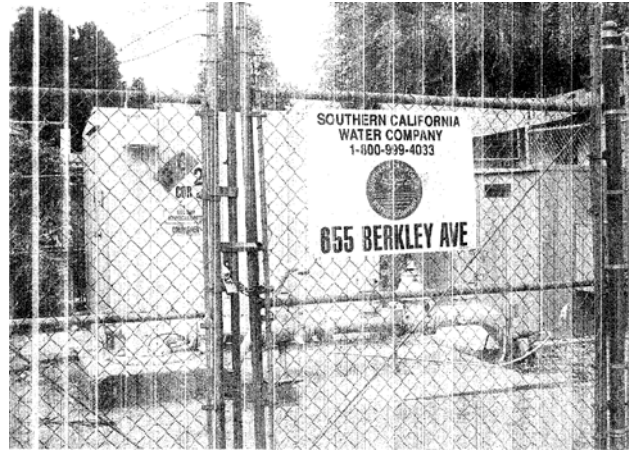


Figure 3 A Local Well

[The health standards for well water supplied to the transmission system in California are very high, higher than for the expensive bottled water sold in grocery stores. Bottled water may or may not be as safe as local water from your home water faucets.]

Where do we get the rest of the Water?

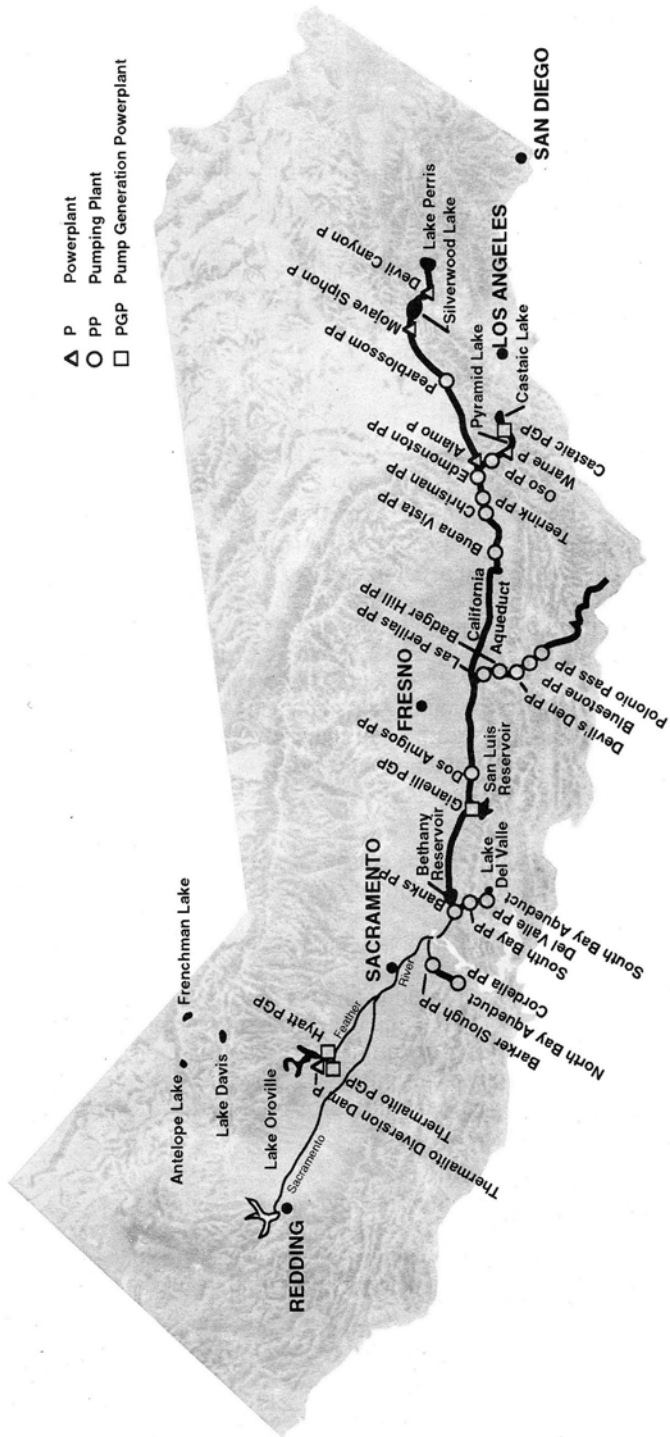
Imported Water from the State Water Project

When voters approved a \$1.75 billion bond act in 1960, they authorized one of the largest publicly funded infrastructure projects in the world. The California State Water Project created a 600-mile long system that diverts millions of acre feet of water from the western Sierra Nevada watershed through the Sacramento River Delta. (See Figure 4.) The Federal Water Project brings water from the as far north as Redding, where water from the Shasta Lake flows into the Sacramento River near its headwaters. The State Project begins with Feather River water, stored behind Oroville Dam, which joins the system just north of the City of Sacramento, to both increase and stabilize the flow. These and other rivers pour into the great Sacramento-San Francisco Bay-San Joaquin River Delta, California's massive fresh water preserve. At the south end of that delta, about 8 miles northwest of Tracy, immense pumps pour water into the California Aqueduct which brings it more than 300 miles south to the San Joaquin Valley, the Tulare Basin, and to dry and rapidly growing Southern California. After the water is pumped to an elevation of 3,000 feet in the Tehachapi Mountains, the aqueduct serving metropolitan Southern California splits into western and eastern branches, about 3 miles east of Tejon Pass. The western branch, which carries most of Southern California's water, empties into Lake Castaic (elev. ca. 1500 ft). The eastern branch is pumped up another 500 feet to Silverwood Lake (elev. ca. 3500 ft.) near the Cajon Pass, and on to Lake Perris (elev. ca. 1500 ft.).⁶

⁵ Interview with Brian Bowcock, Division 3 Representative on Three Valleys Municipal Water District Board.

⁶ MWD Northern California Field trip, 2005-2006 season.

STATE WATER PROJECT



- ▲ P Powerplant
- PP Pumping Plant
- PGP Pump Generation Powerplant

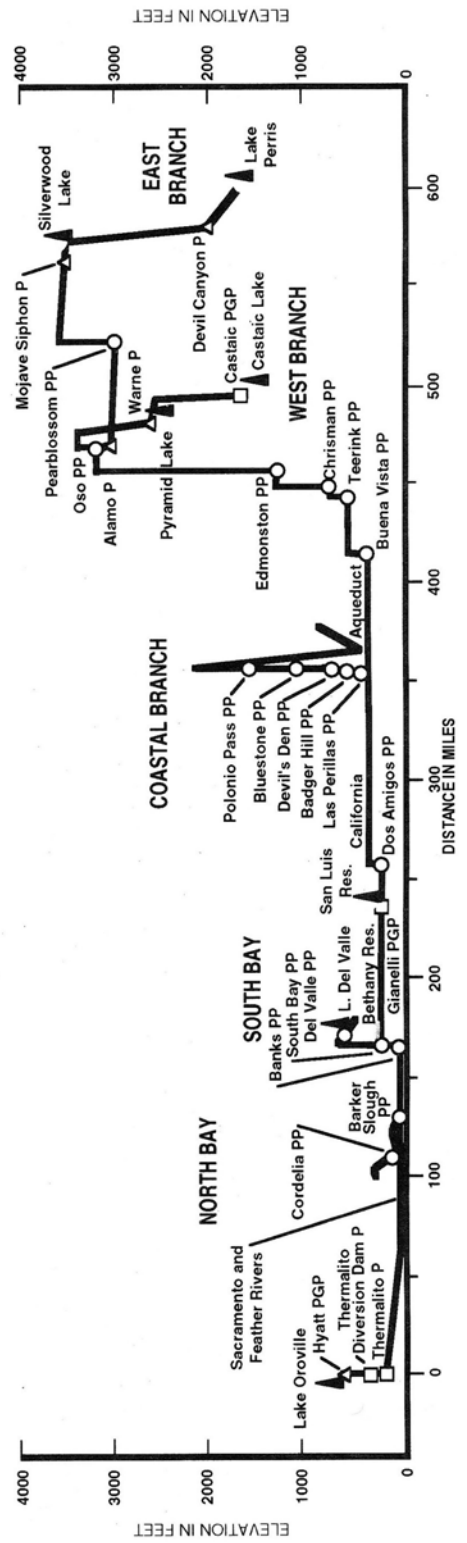


Figure 4.

The State Water Project (SWP) was, unfortunately, not all completed; specifically, a canal designed to bring water across the Delta was never funded. There is continuing contention about the Water Project and the damage done to the Sacramento-Bay Area Delta by taking this enormous flow of water and transporting it to Southern California.

MWD delivers SWP water from the western and eastern aqueducts to much of Southern California (See Figure 5.) and has an entitlement of over 2 million acre feet per year. While this is the entitlement, there is no guarantee MWD will receive this much water, and in fact they never receive the full amount. This 2 million acre feet is nearly half the 4.2 million acre feet of water contracted for by 30 contractors (2001 figures) which use SWP water. Every contractor pays proportionately for project costs based on facilities required to deliver water to their respective areas. State Project water for this area comes through MWD's Rialto (Foothill) Feeder, which is adjacent to Three Valleys Municipal Water District's Miramar treatment plant. The Miramar facility in northeast Claremont was built in that location to utilize gravity flow to residences and businesses in these valleys. Elevation is an important consideration because water costs are substantially increased if the water must be pumped uphill.

Colorado River water is also piped into this region by the Metropolitan Water District. MWD imports up to 1.2 million acre feet per year from this source, but the line which runs to the Weymouth Treatment Plant is at a lower elevation, and would have to be pumped up to Claremont. This is one reason Colorado River water is no longer used in Claremont.

How much water do Claremonters use each year?

Average annual use based on three 12-month periods (July 2002 through June 2005) was about **13,000 acre feet**.

Half from wells → 4,113 acre feet pumped from GSWC wells.

2,383 acre feet from two wells owned by Pomona College and
one well owned by West End Consolidated Water Company

Half from imported water → 6,573 acre feet of SWP water purchased by Three Valleys from MWD.⁷

Total acre feet → 13,069 acre feet (or over 4 billion gallons).

There are 10,800 customers in Claremont and a considerable amount of water is for non-residential use.

The proportion of well water to imported water is about (1:1) or 50% each. In dry years the proportion of well water would be less. GSWC calculates rates based on 37% well water, which they say is average usage in the last five years.

Problems with Dependence on Imported Water

Are there problems with dependence on imported water? Yes, indeed.

Californians must recognize that both **Colorado River Water** and the **State Water Project** face long term difficulties. **Rights to Colorado River water** were negotiated through federal agreements and the US Department of the Interior. For years California has been drawing more than its allotted 4.4 million acre feet per year of Colorado River water. Now the state is under court order to reduce Colorado River use to that oft-quoted "4.4 million"— a reduction of about 16%— in the next five years, as Nevada, Arizona, and Mexico become more developed and clamor for their allotted shares. As a sample of the problems, San Diego has negotiated with the Imperial Irrigation District to transfer some of its agricultural water rights to San Diego's urban use. That agreement helps city users but requires following productive agricultural land and also creates long-term problems of reduced drainage into the Salton Sea and increasing ecological damage to that large inland body of water. Moreover, Colorado River flows have been less than originally estimated in the division of water rights, and prolonged dry spells have depleted storage in both Lake Powell and Lake Mead so that they are only half full. Meanwhile, that mandated 16% reduction of Colorado River use hangs over California's near future.

⁷ Data supplied by Joel Dickson, Senior Vice President, GSWC, October 2005.

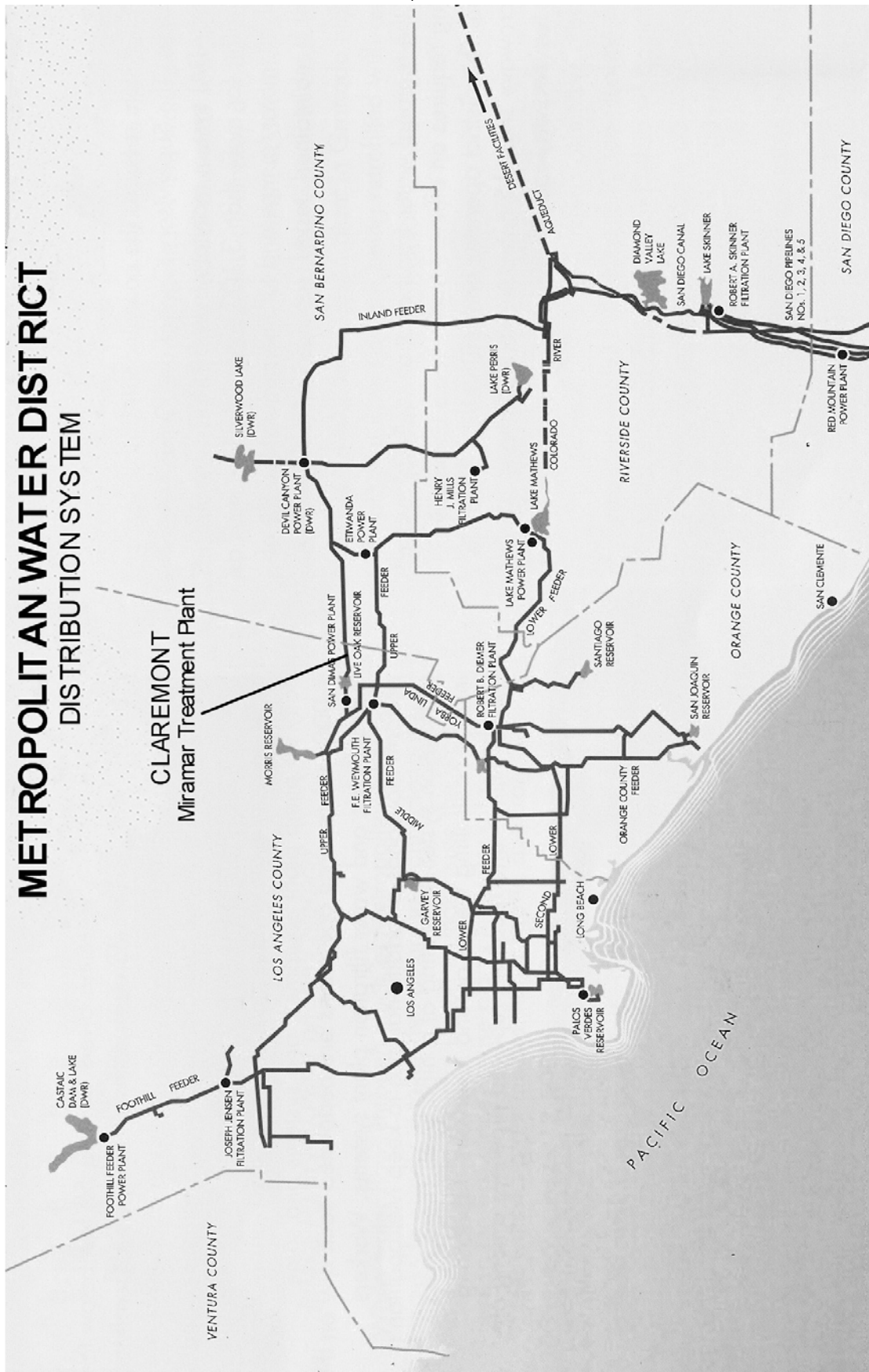


Figure 5.

The **State Water Project** faces many complications in bringing water south. In the first place, MWD's total allocation from the State Water Project for its Counties has never been received, even though it is paid for. Other sources of controversy are the acre-foot allocation and cheaper pricing for agricultural water, which benefit the agricultural economy at the expense of city consumers. Furthermore, cities continue to grow and increase the urban water needs. Also troubling are continuing problems with damage to the Sacramento delta because the canal to improve the cross-delta flow of water has not been built. Rivers bring water to the north end of the delta, but water is pumped out of the southern end. This pumping sometimes causes salt-water intrusion, and the flow through of the powerful pumps is one factor in the die-off of endangered fish populations in the delta, especially in dryer years.⁸



Much of the Delta, which is criss-crossed by 1,100 miles of levees and roads, has been transformed to fields of peat soil which now make up agricultural islands. (See Figure 6.) Degradation of the peat is lowering parts of the Delta an inch or more per year, and today some of the agricultural areas are 15-20 feet below the tops of the levees. Should there be extensive breaches in these levees, perhaps as the result of an earthquake (There are many earthquake faults running through the Delta.), the consequences could be devastating by disrupting the flow of fresh water for months, or even years. For such reasons, and to accommodate times of drought, extensive systems of large lakes and reservoirs are part of the existing and planned water infrastructure for the state of California.

Some 15 years ago representatives of water agencies from the state of California, the federal government, and interested parties— agricultural associations, urban

water districts and environmental organizations— were

brought together, determined to find common ground and to negotiate water policies which could be accepted by all these competing interests. After ten years of negotiations a CalFed Water Plan was agreed upon. It has been accepted by the State Legislature and Congress, and provided some budgetary support, but is never adequately funded. Meanwhile, some of the parties to CalFed are weakening their commitment, and some issues of allocation have been challenged in the courts. The quantity of water available to MWD — and thus to Claremont— is heavily dependent on success in continued negotiations between these conflicting interests. The CalFed process and its outcomes are so important to the future of California that it is urgent they be understood and strongly supported by an informed citizenry. Complicated, yes, but essential.

⁸ In addition to the State Aqueduct, a Federal project constructed prior to the State Water Project pumps a similar amount of water from the Delta. The Mendota Canal runs nearly parallel to the State Aqueduct south to near Coalinga and uses some common facilities such as the San Luis Reservoir. Federal Project water is 90%+ used by agricultural interests, and also supplies the Hollister and Santa Clara areas. The State Water Project was constructed to meet the additional needs of Southern California.

Who Brings Water To Claremont And Administers The System?

Metropolitan Water District (MWD) is the wholesaler that distributes State Water Project (SWP) water in the south and sells it to local retailers. MWD is a public agency, set up by act of the Legislature in 1927. Its members are the cities that have signed on to participate in its projects. Originally it was responsible for building the Colorado River Aqueduct to bring water across Southern California from Parker Dam, pumping it over a pass at 1350 feet. Some Colorado River water was at one time used in Claremont. But when the State Water Project was flowing and Miramar Treatment Plant completed, Claremont's imported use was changed to State Project water which did not require pumping to Miramar and could be delivered by gravity flow to serve most of the City of Claremont.

Three Valleys Municipal Water District is the agency that locally treats imported SWP water at its **Miramar Treatment facility**. This water must be purified to meet drinking water quality standards which is done at the Miramar Treatment facility. (See Figures 7 & 8.) Three Valleys is also a regional wholesaler of treated water to other cities. It is a joint powers authority uniting thirteen neighboring cities into seven divisions. Each division elects a director to the Three Valleys Board. The plant can treat up to 25 million gallons (about 77 acre feet) per day (about 39 cubic feet per second). Claremont has "first rights" to 15 cubic feet per second of State Project water. The 15 cfs flow rate, taken over an entire year, would amount to about 11,000 acre feet, more Project water than Claremont now uses each year. Three Valleys treats only imported water. Currently GSWC buys State Project water treated by Three Valleys, mixes it with local well water for service to Claremont customers. The Board of Directors of Three Valleys sets the price of treated State Project water, which in 2005 is \$443 per acre foot. Thus the cost of treated imported water is approximately three times the cost of well water.



Figure 7. Three Valleys Miramar Treatment Facility (in foreground)

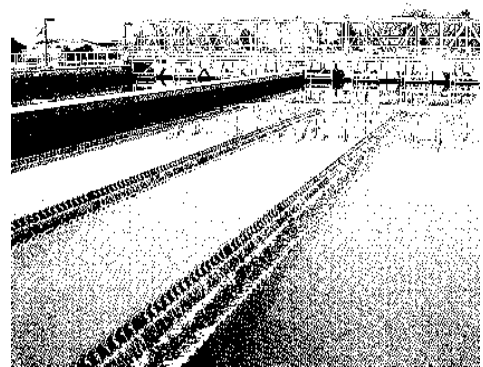


Figure 8. Water Purification Area

Golden State Water Company (successor to the more familiar Southern California Water Company) is the retailer that currently supplies water to Claremont. GSWC owns the wells, pumps, mains and meters, the 34.7% of adjudicated water rights of Six Basins and a 48% share of the San Antonio spreading grounds. It owns all infrastructures and provides management and service personnel. It sets rates, reads meters, bills consumers, collects fees and keeps accounts. Some of these services may be contracted out.

***The current Claremont question is:
Should the City try to buy the water delivery system from GSWC?***

Golden State Water Company (GSWC) is an investor-owned water utility regulated by the California Public Utilities Commission (PUC). In 2004 Claremont officials entered into conversations with the Company about buying the water service for Claremont. As reported in a number of articles in the *Claremont Courier*, negotiations became rather acrimonious, and relations between SCWC and Claremonters seemed less than amicable. This report strives to be fair to both sides of that controversy. The Senior Vice President of GSWC, Joel Dickson, whose office is at the corporation headquarters in San Dimas, has been helpful in granting League of Women Voters members interviews and providing information. All quotations about GSWC operations are from official publications or material provided by Mr. Dickson for the Company.

Southern California Water Company has served Claremont for 75 years. Over the years it acquired a number of wells and small water districts scattered around the state, many located in 10 counties in Southern California. It now divides its operations into districts and regions. The **Claremont Customer Service Area (CSA)** is in the **Foothill District of Region III.**⁹

GSWC, because it is a private company, must have approval for its rate increases from the California Public Utilities Commission (PUC). Municipally owned water services are not required to ask for this approval. State law requires private utility companies to submit rate information at regular intervals. In recent practice SCWC has submitted rate increases every three years, usually a large increase for the first year and smaller ones for each of the next two. (See Table 3.) The application must state reasons for the increases. As GSWC is a private corporation, citizens and city governments do not have access to their books, and many argue that they do not believe the rate increases are really needed, or that improvements listed by the company are sufficient to warrant the rate increase.

+

What Rate Increases has SCWC requested in recent years? What have been granted?

Table 1. Rate Increases for Claremont CSA, 1995-2005¹⁰

Year	requested	SCWC <u>requested increase</u>	PUC <u>granted increase</u>
1995 (for Jan 1, 1996)		56%	12%
1999 (for Jan 1, 2000)		12.8% + regionalization	10% + regionalization
2002 (for Jan 1, 2003)		39%	11.5% (after a hearing with 400 irate citizens)
2005 (for Jan 1, 2006)		26.02% +3.12% in 2007&08	11.5%. (6.69% in 2006+2.19% in 2007+2.66%

Consumers almost always protest rate increases. Public outcry has become louder as the rates have gone higher. In 1999 this area of SCWC's holdings was melded into Region III, and the regionalized rates which resulted have become an exceptionally sore point. Claremont City Council and staff regularly protest the

Water Company rate increases, and have protested this year. In fact, citizens would call them to task if they did not protest. In the year 2002 about 400 Claremont citizens gathered for the rate hearing in Hughes Center and made such a vigorous plea for denying the rate increase that PUC reduced the increase. In 2005

⁹ Southern California Water Company, *Application to the Public Utilities Commission for Rate Increase, 2005.*

¹⁰ Report to City Council from Glenn Southard, City Manager, Agenda, April 27, 2004. See also Southern California Water Company, *Application to the PUC for Rate Increases, 1995, 1999, 2002 and 2005.*

the hearing was held in San Dimas and only a few Claremonters attended. PUC does not usually grant the full rate increase, so it is commonly believed that the company inflates requests, knowing the PUC will approve less than they ask.

The **Office of Ratepayer Advocates (ORA)**, an independent advocacy office set up by the state, conducts what they call “a thorough investigation” of the application for increased rates pending before PUC. In July 2005 ORA issued a report to the PUC recommending a revenue decrease of \$660,500 for Southern California Water Company for 2006 (instead of an increase of 26.02%). The reduction would apply to operation and maintenance expenses, to administrative and general expenses, and call for a reduced rate of return on the rate base. ORA and SCWC agreed to a stipulation on General Office expenses with a modest increase allowed for a test year of 2006.¹¹

The Golden State Water Company feels that ORA is biased and its recommendations should be discounted.

How Do Claremont Water Charges Compare With Neighboring Cities?

Past studies show that Claremont rates are consistently higher than our neighbors. In 1999, upset by large rate increase proposals, the City Council asked its Utility Committee to produce a rate survey comparing local water fees to those in neighboring communities. City staff in cooperation with SCWC completed a survey in July 2001 showing that rates of average Claremont customers were 66% higher than the average of 11 neighboring cities. The next year after some of those cities had raised rates the survey was repeated, and found that Claremont rates were still 40.7% higher than 11 neighbors. SCWC still asked for another rate increase. Daniel Keesey, LaVerne’s Director of Public Works, regularly collects updated rates from all his neighbors, and shared his tables of rates. (See Table 2.)¹²

Table 2. Water Rate Comparison for 10 Cities, 2004 - Bimonthly and Monthly

		Rate for 1-inch meter 2004 2 months	Rate for 1000 gallons of water 2004	City	Water supplier
Upland	City company	\$28.00	\$1.00-1.40	\$64.00	\$32.00
Glendora	City company	\$22.10	\$1.50-2.02	\$76.10	\$38.05
Azusa	City company	\$39.04	\$1.07-1.68	\$77.56	\$38.78
Ontario	City company	\$32.50	\$1.46-1.60	\$85.06	\$42.53
Rancho Cucamonga	Cucamonga County Water District	\$33.50	\$1.54	\$88.85	\$44.43
Pomona	City company	\$57.62	\$0.88-1.55	\$89.30	\$44.65
Chino	City company	\$49.96	\$1.13	\$90.63	\$45.32
LaVerne	City company	\$22.40	\$2.08	\$97.28 +\$8 Miramar charge	\$48.64+\$4
Claremont	GSWC	\$65.00	\$2.07	\$139.41	\$60.71
San Dimas	GSWC	\$65.00	\$2.13	\$141.52	Page Revised 2/15/06

Detailed Comparison from Four Nearest Neighboring Cities, 2005

¹¹ Office of Ratepayer Advocate, Report to the California Public Utilities Commission., July 2005.

¹² Daniel Keesey, Director of Public Works, City of LaVerne. 2004 Survey, dated 10/18/05.

The figures in Table 2 are for 2004. To update the figures for the year 2005, we brought together a number of official sources (See Table 3 and footnotes below.) to present specific data from four close neighbors.

Table 3. Rate Comparison for General Metered Service 2005, with increased approved for 2006.

	Claremont ¹³	San Dimas	LaVerne ¹⁴	Pomona
5/8 inch meter (monthly)	\$13.65 (31% of meters)	\$13.65	\$11.08	\$16.31
Approved for 2006	\$14.20	\$14.20	\$11.08	---
1-inch meter (monthly)	\$34.05 (59% of meters)	\$34.05	\$11.08	\$29.90
Approved for 2006	\$35.50	\$35.50	\$11.08	
Water (1000 gals)	\$2.13	\$2.13	\$2.08-\$2.58*	\$0.909**
Approved for 2006	\$2.29 starting 1/19/06	\$2.29	\$2.08-\$2.58	
* plus \$3.20- Miramar fee. The rates increase with elevation over six zones. Most customers are in zones 2 and 3 (usage rates \$2.16 and \$2.27 respectively).				
** first 1200 cu.ft, \$1.60 over 1200 cu ft				

Both Claremont and San Dimas use water systems owned by Golden State Water Company with tariffs under the regionalized rates. Rates are identical in these two cities, although the cost of water for San Dimas is substantially higher because all water is imported, while half of Claremont's water comes from less expensive local wells. This is one example of the effect of "regionalized rates".

Pomona and LaVerne both own their own water systems. Both are supplied by a number of Six Basins wells and MWD, as are Claremont and San Dimas. Pomona, because of its lower elevation, has economical access to Colorado River water. It also uses reclaimed water from a Sanitation District Treatment Plant in southwest Pomona for irrigation without the additional cost of pumping to a higher elevation.

The most relevant rate comparison is between Claremont (supplied by GSWC) and LaVerne (a city-owned water company) because they serve nearly the same number of customers and use very nearly the same water sources. Therefore we present here a detailed comparison of Water Service of these two cities.

Comparison of Claremont and LaVerne Rates

LaVerne has had a city-owned system since before 1906 when the City began to purchase a number of small water companies. Today it serves about 8,400 customers, using 20% well water and 80% MWD water from the Miramar treatment plant. (Claremont's mix is close to 50% -50%).

Water rates for LaVerne and Claremont are similar per unit of water consumed.

Meter rates--- LaVerne's meter rates — \$11.20 per month per user for 1- inch meters —are much lower than Claremont's. LaVerne now installs only 1- inch meters because charges for the 5/8- inch meters were only slightly lower than for the 1- inch meter and there seemed no reason to continue the dual system. (For many years they charged the same rate for both sizes.)

¹³ Data for Claremont and San Dimas are from Southern California Water Company, *Application for Rate Increases, 2005 to the CPUC*.

¹⁴ Data for La Verne and Pomona are from staff of their water companies and company records.

Of Claremont customers, 31% use 5/8-inch meters and 59% use 1-inch meters. (The remaining 10% are large commercial users.) Rates charged by the Golden State Water Company were \$ 13.65/month for 5/8-inch meters, and \$34.05/ month for 1-inch meters in 2005. For 2006 rates approved by the PUC are \$14.20 for 5/8-inch meters and \$35.50 for 1-inch meters. Thus the rate for 1-inch meters in Claremont is over three times the rate charged in LaVerne, and rising. (See Table 3.).

According to Public Works Director Daniel Keesey, LaVerne's meter charges are used to cover fixed costs: personnel, equipment, and debt. The commodity (water) charges cover the cost of supplying water, power, maintenance and buildings. Keesey says that their water costs are paid by only these three elements: (1) meter fees, (2) water charges, and (3) in 2005 a monthly charge of \$3.20 toward the cost of building the Miramar water treatment facility, a decreasing fee which will be paid out in 5 or 6 more years.

Pumping rights: The City of LaVerne has adjudicated rights to 7.6% of the Six Basins water, which amounts to about 1,500 acre feet annually. They pump nearly their full allocation. They also have exclusive rights to water from the small and unproven Live Oak and Ganesha basins, but these require deeper wells. Should future wells in these basins prove productive, management hopes to increase the percentage of less expensive well water by another 20%. Because the water turnover is slower in the basins tapped by LaVerne wells, nitrate contamination is higher than in most of the Claremont wells that tap more rapid flows. If LaVerne succeeds in finding additional well water, their water rates should drop or see fewer increases.

Significant differences in the way the LaVerne City Company operates:

- LaVerne requires developers to install a water system for their development and donate it to the city. GSWC has paid for extension of infrastructure in its area most of the time, but this became an item of unresolved contention in supplying water to the new State Prison in Calipatria, so it seems sometimes to be negotiable.
- LaVerne water system is exempt from city taxes on installations within the city. SCWC must pay property taxes on all of their system.
- In LaVerne, water used for City purposes (parks, for example) is not charged to the City. Citizens in their rates pay for it, of course. In 2002-03 Claremont paid \$403,200 to GSWC for water for city buildings and for irrigation of parks, street medians, and the Cemetery.¹⁵
- The LaVerne water system pays \$935,000 into the City's General Fund for building space and services provided. A portion of this represents payments against fixed costs and other items, and is a financial benefit to the City. The amount of this benefit has not been determined.
- A City-owned company has access to State and Federal funding, if the city qualifies. For example, LaVerne benefited from Proposition 50 in being awarded \$3.3 million through MWD toward installation of a \$5.5 million water treatment system for removal of nitrate from five wells. The \$2.2 million LaVerne had to provide comes not from the City's General Fund but from \$740,000 annual depreciation in the water budget plus Developer fees (\$7500/ acre residential and \$13,000 commercial). Private companies, such as GSWC, do not have access to state bond monies, and any public funding is unlikely.
- LaVerne water rates are adjusted to keep pace with increasing costs of power, imported water and labor. Director Keesey says he likes to adjust rates about every three years, but aims to keep rate increases small, so that the first year they earn a little beyond expenses, the second year they break even, and the third year the company loses some money. Then they adjust rates again.

GSWC reapplies to the PUC for rate increases for Claremont every three years, usually very substantial increases for the first year and smaller increases for the next two.

¹⁵ 2003 Claremont City budget.

In Mr. Keeseey's opinion, LaVerne operates a sound water system, neither fancy nor minimal, "not a Cadillac nor a VW Bug", as he says. It is superior to Claremont's system in some ways, such as having more water storage capacity for emergency use, and arguably is being better maintained. (It has proven difficult to obtain sound up-to-date information on the state of maintenance of the Claremont system.)

Summary of the comparison of neighboring cities and their water rates:

1. Rates are much lower in La Verne and Pomona, which own their own companies, than in Claremont, which is supplied by GSWC.
2. The 1-inch meter service rate for Claremont is more than three times the rate for LaVerne. Water for Claremont is about 30% more expensive than for LaVerne if the mix of well and expensive imported MWD water is taken into account. Yet service and infrastructure are reputed to be as good or better in LaVerne..
3. LaVerne's Water Company benefits the City financially. It pays a share of the fixed costs and provides water for City use (parks, etc.). Claremont currently pays GSWC more than \$400,000 annually for similar water use.
4. Rates must be expected to rise in coming years. An increase of 11.5% from 2006-2008 was approved.

Problems with a Regionalized Rate Structure

In 1999 Southern California Water requested that Claremont and its water rates be 'regionalized' into Region III, an enormous area stretching from Barstow, Apple Valley and Wrightwood in the Mojave Desert down through Morongo Springs to Calipatria and Niland at the southern end of the Salton Sea, over to the coast for unincorporated areas of Orange County, and up to Claremont, San Dimas and San Gabriel Valley in Los Angeles County. This seems to be part of a general move toward much broader areas of melded rates. There is some indication that Golden State intends to move toward statewide rates for all its customers.

Some Claremont customers complain that we should not be included into this large region, believing we are subsidizing new lines for urban growth and development in the Mojave Desert, and helping build a water treatment plant in Calipatria near the new state prison. In former practice, rate districts were located near each other and shared similar water problems and supplies. Regionalization is based on the business principle that there are economic benefits from larger administrative organizations and savings on large-scale operations. The City of Claremont did not oppose regionalization when it was proposed in 1999 and was approved by the PUC. Some people believe Claremont City officials were at fault for not protesting this move when it was proposed. The Water Company argues that Barstow, and many of the desert communities, use well water exclusively, which costs less, but pay the same rates as Claremont— which, they imply, proves regionalized rates are fair to Claremont.

GSWC appeals for Claremont support

When Southern California Water received permission to create the regional structure, the PUC mandated that the Company compile data on how rates were affected by the change. Five years later (July 7, 2004), GSWC produced data demonstrating that a "regionalized" rate is cheaper for Claremont than a "stand alone" rate. This year they revised their figures slightly— their average user cost figures having gone up in one year from \$87.56 to \$89.88. A full page advertisement in the *Claremont Courier*, October 26, 2005

stated that for Claremont customers the Regional Rate is \$89.88 while a Stand Alone rate would be \$95.80, resulting in a savings of 6.6% (based on 1-inch meter, average usage per customer per month of 3500 cubic feet). The company attributes this saving to an “economy of scale” and says in the ad that their rates are competitive with government-owned systems.¹⁶

[*Comment:* with the data available it is not possible to judge these figures or to know how either the total charge or the savings were calculated. It is interesting to note, however, that these published figures show an increase in one year of \$2.32 in rates and a decrease of hypothetical savings of 1.9%.]

The previous week, GSWC had provided another graphic presentation in a full-page advertisement in the *Claremont Courier*, October 19, 2005. Pointing out that comparing municipally owned water companies with corporate services is like comparing apples and oranges, the ad states that whereas a corporate-owned water company has only the rates charged to customers as income, “municipalities can recover water-related costs in other ways. Taxes, bonds, interest income and other special fees related to the water system often do not appear on municipal water bills. This makes the water bill appear lower, while taxes and fees are used to make up the difference. If we add all those hidden fees back into the water bills paid by some of our neighbors, it’s clear that the cost of providing water to the citizens of Claremont is not as high as even some government-owned water systems. . . . In fairness, we just believe it would be more fruitful to compare apples to apples.” A graphic of apple slices shows “1 inch True Water Costs: La Verne \$72, Pomona (outside city) \$69, SCWC Claremont \$63, Pomona (inside city) \$57, Upland \$39.”¹⁷

Were Claremont to own its water system, regionalization would be eliminated. Would costs be increased by the loss of large-scale operations from a big water-management company? Or could a Claremont company reduce rates while providing service and efficiency comparable to LaVerne’s? These are important questions to consider.

Is the GSWC an Attractive Investment for Stockholders?

Golden State Water Company (until Oct. 1, 2005 called Southern California Water Company) is an investor-owned profit-making subsidiary of the *American States Water Company* listed on the New York Stock Exchange as *AmStsWtr*. As a stock company, it is operated to provide water to consumers while maximizing returns to its stockholders. Its applications to California PUC make clear that one of the reasons for raising rates is to assure value to stockholders and thus make the company more attractive to investors. How is the company performing?

With capitalization of \$757,475,000 (Dec. 31, 2003), annual revenue for that year of over \$200 million, and a gain in capitalization of almost 8% in the calendar year, American States Water may well see its assets go over one billion dollars in the next two or three years. Monthly trading volume is averaging nearly 70,000 shares. Price of stocks has gone from \$25.37 to over \$32 per share this year-to-date, an appreciation of approximately 25% in the year. The Company declared quarterly dividends totaling \$0.90 per share of stock this year.¹⁸ There are details of its operation which we do not know, for as a private company it is not required to reveal some aspects of its operation which might be of interest to water ratepayers. Clearly *AmStsWtr* is an attractive and stable investment in today’s market.

¹⁶ Southern California Water Company, “Regionalized Rates, Local Benefits.” *Claremont Courier*, October 24, 2005.

The single sheet clarifies in small print “Based on 1-inch meter, average usage per customer per month of 3500 cu ft.”

¹⁷ Southern California Water Company, “Comparing Apples to Apples.” *Claremont Courier*, October 19, 2005.

¹⁸ <http://finance.yahoo.com/q/hp?s=awr>. October 24, 2005.

What If Claremont Purchases The Local Water System From GSWC

What Would Claremont Buy?

The facilities used for Claremont as reported by a senior GSWC official on Oct 1, 2005¹⁹

- 19 active wells (plus 4 wells off line due to water quality issues).
- 10 company-owned reservoirs and 2 third-party-owned (first rights to half the water in one 8 million gallon reservoir and all of a second reservoir owned by Three Valleys MWD).
- 10 booster stations.
- 152.25 miles of mains.
- 10,787 active service accounts (and 486 inactive), with 10,834 meters.

The buy-out cost figures presented in the next section also include GSWC's 34.7% allotment of Six Basins water rights and its rights to 48% ownership in the spreading grounds of the Pomona Valley Protective Association. SCWC acquired the water rights at little cost before the adjudication of the Six Basins. As SCWC had responsibility of delivering water to certain cities or areas, they represented those areas in the negotiations. Before that time, Claremont could have established its rights to ground water (wells) on the legal principles of "overlying rights" or "consumptive rights" which allowed cities to pump water from basins underlying the city for local use. Now that the basin has been adjudicated, the City can't just drill wells and "take water". Rights to pump water have become valuable, and a stock company cannot be expected to give those rights away.

An important factor in the possible water purchase of concern in City Hall and among knowledgeable citizens is the condition of older parts of the water infrastructure held by GSWC. During last year's negotiations between the two parties, City officials felt that insufficient information was available about conditions of older water mains and pumping stations, and the reliability of cost and operational data they were provided. An instance of problems cited was lack of adequate planning and proper installation of pumps for the northern parts of town. This resulted in low water pressure during the Grand Prix Fire in 2003 that burned across the foothills. Because of lack of water pressure, fire fighting was greatly hampered, resulting in damage to homes on Claraboya, North Mountain, and Padua Hills. Sixty-two families whose homes were burned in that fire are suing the City of Claremont. GSWC officials explain that a pump was overtaken by the fire, through no fault of theirs. The City says they had promised two pumps and improved pressure before the fire. GSWC says they are now installing a dual back-up system in a fire-resistant structure.

What Would It Cost to Buy Claremont's Water System?

Claremont City in the past commissioned several studies to determine fair market value of the Claremont water utility. In 1988 Bookman-Edmondston Engineering appraised the value at \$16.5 million. Council decided there were more pressing priorities than buying the water company at that time. In 2004 a study by Engineer R.W. Beck determined fair market value at \$40 to \$45 million. It is presumed that these evaluations were for the plant and infrastructure listed above, but not for water rights. The City entered discussions with the Water Company with these appraisals in mind. The Water Company in its 2005 rate increase request to the California Public Utilities Commission listed the Claremont CSA utility plant cost at \$44,719,822; depreciated cost at \$31,739,106 (as of 12/31/03).

GSWC in 2004 negotiations quoted:	\$36.7 million for water rights and
	<u>\$50.0 million for infrastructure</u>
Total estimated cost	\$86.7 million to purchase the water system ²⁰

¹⁹ Data supplied by Joel Dickson, Senior Vice President, GSWC, October 2005.

²⁰ Glenn Southard to City Council, Agenda Report, February 22, 2005.

The company would, unsurprisingly, demand the highest possible price for its equity, as it considers itself responsible to the corporate shareholders to manage their assets prudently. An official of GSWC stated to League of Women Voters interviewers that company engineering audits showed Claremont water assets to be worth more than \$100 million for both water rights and infrastructure. The company was willing in the spring of 2004 to negotiate with the city about a price of \$86.7 million. But the Company also wanted the City to sign a 30-year Operations Contract with SCWC for the day-to-day operation of the water system, explaining their demand as due to the fact that the Water Company currently had the personnel and equipment for that work.²¹ The City would have had authority to set rates and agree to capital improvements, presumably at City expense. No price was set for this service, according to the public records. However, the City Manager reported to Council that in its latest PUC rate application GSWC showed annual operation and maintenance cost of approximately \$1.3 million for the Claremont area in 2005.

Negotiations broke off at that point. It appeared that the City would not sign a long-term agreement, lacking information about quality of the infrastructure and distrustful of the accuracy of figures they had received. There was talk of using the power of eminent domain. Reluctance at this point was prudent, because these legal proceedings are likely to be costly. (See p. 20.)

If the City were to buy the company, it would need to finance the purchase at an agreed-upon cost (perhaps \$100 million). GSWC's insisting on a long-term contract to manage a Claremont-owned company as part of a deal raises a number of other problems. Some persons have suggested that it would be prudent to expect to add \$13 - \$15 million to the purchase price as a set-aside for capital improvements and repairs, making the total more than \$100 million. Water customers should be aware, however, that when infrastructure repairs are required, the cost is borne by the ratepayers, no matter who owns the company.

The City Manager had hoped to work out a win-win agreement in April 2004, one beneficial to both the City and the Water Company, but that did not happen. With the departure of both the City Manager and the Director of Community Services negotiations were put on hold pending arrival of new staff. Further work has been confined to the required CEQA studies.

How Could a Purchase Be Financed?

The purchase would surely require long-term financing. Mayor Sandra Baldonado has spoken of revenue bonds, in which case all revenues are maintained in a special designated fund for water service. Such funds are by law not mixed with the General Tax funds of the city.

Other financing vehicles have been mentioned in city discussions: capital appreciation bonds; a special assessment district or a joint powers agency with neighboring cities, or even some kind of public-private investment alternative. The director of Azusa's city-owned water company points out that once the city owns the company, it is eligible to apply for state assistance in infrastructure replacement or improvement. This could be major assistance once the deal is concluded, but such funds are not always available and cannot be relied on to pay back bonds.

²¹ Glenn Southard to City Council, Agenda Report, April 27, 2004.

What Would the Purchase Cost Claremont Customers?

What plan did the former City Manager and his staff have for the paying the costs when they initiated discussions toward buying the Water Company? In an Agenda item for April 27, 2004, Mr. Southard wrote: “The revenue generated by water service rates would be used to pay off debt incurred in the financing. The debt to purchase the water system would be satisfied in 30 years, at which time the utility would be owned by the City debt free.” Did this assume that the cost could be entirely defrayed by current water rates? This task force has not been able to obtain city records to answer this question.

So, risking uncertainties, researchers on this task force have made some estimates. We use LaVerne, which shares pertinent characteristics, as an example of what Claremont’s water might achieve under City ownership. We assume a cost of \$100 million; the actual cost, of course, could be significantly different.

If these assumptions are made, how would water rates be affected if the customers shouldered this entire debt directly?

If a City sells \$100 million in bonds on 30-year amortization, the bonds will cost approximately \$200 million (assuming a low to moderate interest rate on sale) for purchase and interest by the time they are repaid. To repay in 30 years will cost \$6.7 million per year. Divided among 10,800 customers that would be about \$51 per month per customer. However, there are offsets that could reduce this figure considerably. For example, the profits which now go to GSWC stockholders could be used to help pay off the bonds and reduce this amount. GSWC profits come from meter fees and water usage rates, which might be reduced in Claremont to parallel the lower rates LaVerne has been able to achieve. We can estimate how much this might be. Three such possible offsets are proposed below, with an estimate of the amount each might make available toward the \$51 projected monthly bond repayment.

First, meter fees could be reduced. As shown in Table 3, and using 2005 rates, for 59% of Claremont customers with 1-inch meters, the monthly charge is about \$23 higher than in LaVerne (((\$34.05 - \$11.08 in 2005), and for the 31% with 5/8-inch meters the difference is about \$3 (\$13.65 – 11.08). Thus, on the average, Claremont residential customers pay more that \$14 higher meter fees each month. Were that change to be implemented, and our assumptions prove correct, this \$14 could be used to help defray monthly bond payments.

Second, Claremont now uses about 50% well water, and LaVerne only 20%. If the much higher cost of MWD (imported) water is taken into account, the water usage charge could be about 30% less in Claremont. The possible saving hard to calculate because unknown distribution costs are also involved.. That difference could save a Claremont City water operation a conservatively estimated \$10 per month per rate-payer, money which could be used to repay bonds.

Third, the City of LaVerne provides buildings and administrative services for which the water system paid \$935,000 in 2004 into the LaVerne General Fund. Some portion of this represents a financial benefit to that City by paying for certain shared fixed costs.

Another financial benefit to LaVerne is the water supplied free of charge for City uses— for irrigating parks, median strips, use in City buildings. These avoided costs were budgeted in 2005 by LaVerne at \$134,000. The City of Claremont, on the other hand, pays GSWC more than \$400,000 per year for water for irrigating parks, medians, the Cemetery, and use in City buildings. Savings on shared city/water system operations plus City water bills could net another half-million dollars or more — that’s \$4 per month per household that could be used instead to repay water bonds.

The sum of these three bond-payment-offsets (\$14 +10 + 4) is \$28 and could reduce a possible initial increase in residential water bills from \$51 down to \$23. Might such savings be realized in the first years

of City operations? Probably not. Careful management, a determined effort to keep rates in check, and to dedicate water savings to paying off bonded indebtedness would certainly be necessary.

In the coming years, however, water rates will surely rise all over California, with predicted population growth, increasing delivery costs, and increased demand. Golden State Water Company has raised Claremont water rates an average of 3.35% every year for the last 10 years. The 2006 approved increases will average 3.85% for the next three years. LaVerne rates not only started lower, but have increased less rapidly in past years. What will happen in the years ahead?

Recall what a difference compounding an increase makes. Even if LaVerne rates increase in the years ahead at the same rate as GSWC's rates increase, starting lower will give LaVerne rate-payers increasingly lower rates. The difference between these rates will grow. If future rates and financial benefits to the City are assumed to increase at 3.5% compounded annually, then the \$28 offset would grow as follows:

One year	Five years	Ten years	Eighteen years	Twenty years	Thirty years
\$28	\$33	\$39.50	\$51	\$56	\$79

If our projections prove to be correct, in the first year of Claremont owning its water system, the average cost of serving Claremont customer would be \$28 lower each month than it would be under GSWC, but one must add \$51 to the bill to service the bond debt. Thus the total bill would be \$23 higher (that is, \$51-\$28). However, as the years go by, the compounded increases at 3.5% would pay off increasing larger portions of the bonded indebtedness, until after about 18 years the total bill would be no higher than it would have been under GSWC. And after that, total bill would be lower. After 30 years, when the bonds are paid off and the City fully owns its water company, the average bill would be approximately \$78 a month less than it would be under GSWC. If bonds were refinanced after 11 years, the break even point could be reached at that time at the expense of extending the payback beyond 30 years. These scenarios are shown on graphs appended to this report.

In actuality, the costs and savings could be greater or less than this scenario anticipates. Many factors, some mentioned elsewhere in this report, could affect the total cost. For example, the purchase price may not be \$100 million; the management savings might not be achieved in early years; infrastructure repairs might be higher than expected; grant money or other financial arrangements might reduce local costs.

Value of Water Rights in 2006

A truly critical issue in the purchase of Water Services for the City of Claremont is "What is a fair price?" Or, "What is the water company worth?" And "What are the water rights worth?"

Often over the years, as early as 1940 and through the 1980's, there has been consideration in Claremont of the possibility of buying the local water service from Southern California Water Company. Each time City officials decided the City did not have funds for such a purchase. According to Brian Bowcock, who has been professionally involved with local water issues for several decades, as recently as the early 1980's, Claremont could have bought the system for about \$10,000. Water rights were free for the taking, and Claremont could even have drilled its own wells, its rights based on California water law, up until 1999. There is now no water "free for the taking" in this Valley – in this basin..

In 1999 water rights in the Six Basins aquifer, which lies under Claremont and Pomona, were adjudicated in the courts. Southern California Water was awarded 34.7% of the annual yield of the aquifer. According to Bob Bowcock, whose local firm deals in water rights, a small quantity of water rights in the San Gabriel Basin (Glendora) sold for \$4,800/af. He regards this price as high, even for the San Gabriel basin, which is said to be more oversubscribed than the Six Basins aquifer. In the Six Basins aquifer there is no sales precedent, although according to Mr. Keesey LaVerne has leased water rights for \$200/af annually. At \$4,800/af the value of the GSWC water rights would be about \$28 million. In 2004 GSWC spoke with the City of Claremont about a possible price of water rights of \$36.7 million.

Significant Public Policy Issues Relating To Water

Eminent Domain Proceedings in Buying a Water Company

Some city officials and some citizens have mentioned the prospect that water company purchase might have to use eminent domain proceedings to secure a deal.

The power of eminent domain is a well-established legal principle. Webster's Dictionary defines it as "that superior dominion of the sovereign power over property within the state which authorizes it to appropriate all or part of that property for a necessary public use, reasonable compensation being made." The hanging point is usually "compensation." How decided? The U.S. Supreme Court stated "The courts have adopted and have retained the concept of market value, . . . more concisely, 'market value fairly determined'" [*United States v. Miller*, 317 U.S. 369, 373-374]. The California Supreme Court equates market value to "just compensation" as determined by its value in the minds of sellers and purchasers, saying "The rule is of universal acceptance that the measure of this damage is the market value; that is to say, the highest price estimated in terms of money which the land would bring if exposed for sale in the open market;. . . buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable." [*Sacramento etc. R.R. Co. v. Heilbron*, *supra*, 156 Cal 408-409].²² To initiate this process, the City could file suit in California superior courts.

The Public Utilities Commission may also function as Court of eminent domain, it having been granted jurisdiction "to fix the just compensation to be paid for the taking of any property of a public utility in an eminent domain proceeding." Pub Util C §§1401-1421 specifies the procedure. The condemnor first files a petition, describing the property and requesting the commission to fix the value of the take. The commission conducts hearings and then makes a written finding of just compensation and severance damages. The condemnee may accept the finding and receive the specified amount as just compensation, or may refuse and file in a superior court. However, in this case the superior court can only rule on nonvaluation issues—the condemnor's right to take the property, "The finding of the commission, fixing the just compensation to be paid by the political subdivision for the lands, property and rights shall be final and shall not be subject to modification, alteration, reversal, or review by any court of this State." Nevertheless, adjustment of the award is possible after the actual takeover of the condemned property, through supplementary proceedings before the commission. And the law also says that the condemnee may not be denied the right to a jury trial on just compensation.²³ In other words, condemnation proceedings might be very lengthy; a big company could expect to wear down the patience and financial resources of a small local governmental power.

If the case goes to superior court, either of the two litigants may request a jury trial. Usually, we are told, a big corporation requests a jury because their experienced and powerful attorneys expect to be able to persuade a jury of the rightness of their position. The final decision, whether by judge or jury, makes the cost not predictable in advance. A city must be prepared to pay whatever the court decides, plus costs. This might be quite expensive. If, having started the proceedings, a city were to decide to withdraw its suit, they would be required to pay the whole of the court costs. As Mayor Baldonado says, a public entity should never undertake condemnation proceedings unless fully committed to the decision, and prepared to carry through to a purchase, whatever the cost.

²² Civ. No., 14040. Court of Appeals of California, Fourth Appellate District, Division One. September 15, 1976.

²³ CA Statutes §9.79 Practice before Public Utilities Commission. 1. Function as Court of Eminent Domain.

Fairness and Equity Issues in Water Rates and Debt Repayment

Public ownership of a public utility ought to address fairness issues. For water rates, that means that a single person in a condominium without a lawn ought not to pay the same as a large householder with expansive lawns and heavy in-house consumption. Fair water rates should reward users for conservation and reduced use of increasingly precious public resources. At present only size of meter and cubic feet of use determine water bills in Claremont. Rates keep going up. City-owned water companies sometimes develop a tiered rate structure, such as the City of Pomona now uses, charging a basic rate for the first several hundred cubic feet used, then increasing the per-unit cost to heavier users. LaVerne increases rates to homes located where pumping to higher elevations increases the expense of service.

A city-owned company could construct a fairer system of allocating charges, basing rates on cost and quantity of water consumed. Debt repayment also should address economic equity issues. Conservation education and incentives for saving water by all consumers are a public responsibility. A water supplier should participate by encouraging the installation of low-flow appliances, or drought-tolerant plantings, or other household methods or business approaches to conservation. Might a Claremont City Water Company be fairer to consumers and contribute to water conservation in California?

Future Outlook for Water Supplies in California

Experts warn that the time is past when California can build huge dams and endless miles of canals to impound and distribute water across the state. Enormous costs make the public less and less inclined to approve such projects. Negative environmental impacts encounter governmental regulations as well as public protest. Because of drought and urban expansion, many of the reservoirs already built are not now full. The amount of fresh water on the earth's surface is the same as it was eons ago. The earth simply does not have more fresh water to be exploited. Therefore, everyone— especially Californians— must learn to be more water-wise, to cut down on water use, to conserve water in their homes, to plant more drought tolerant landscaping. Agriculture and industry must find many ways to be more water-efficient. In the days ahead, recycling will become more essential and will be used to regenerate our aquifers.

Claremont can continue to depend on local wells, though not for its total supply. Whatever entity controls our water service must cultivate cooperative relationships with all the agencies that transport and treat the water supply. Claremont is now largely built out. It is unlikely that water consumption here will increase much in the future. Indeed, with foresight and active planning, per person water needs should decrease. Our aquifer is not a large one, and at present it is being pumped at its replacement capacity. Are there ways to increase regeneration, especially in dry seasons or in the summer when use is high and rains cannot be expected to provide natural replenishment? Would a City Water service take that long-range goal more seriously?

MWD is now filling an 800,000-acre-foot reservoir at Diamond Lake, built between two mountains near Hemet, to provide emergency supplies for Southern California in case a major drought or catastrophic event were to interrupt water deliveries from Northern California.²⁴ MWD is fully aware that levees along the Sacramento River are alarmingly vulnerable to earthquake or heavy flooding. If major levees should fail, fresh water now drawn from that great delta would become a salty soup, which might take six months or several years to clean up. When at full capacity, Diamond Lake reservoir is planned to provide a six-month emergency supply of water for Southern California.

Desalination is a very appealing idea, but to water experts, it has too many unresolved difficulties to be counted on in the near future. Although the technology is available, it is practical only for limited areas

²⁴ Metropolitan Water District, *Colorado River Aqueduct*, 2005.

(eg. on navy ships, in the city of Elat, Israel). It requires a great deal of energy and is not only very expensive for large populations and especially for agriculture, but also presents environmental problems in disposing of salty residues. If these are put back into the sea they upset the oceans' local ecological balance. Injected underground they would contaminate aquifers on which most of the countries depend. Desalination may eventually augment our water supply, but it is far from an easy solution to California's water needs.

Recycled water (with tertiary treatment of waste water from sanitation districts) is not now used in Claremont because treatment at the Pomona Sanitation Plant, in the southwest part of that city, would require pumping to our higher elevation which we are told make costs prohibitive at present. Furthermore, the water produced in South Pomona is already fully used for irrigation at Cal Poly and by the City of Pomona.

Yet recycled water is the most available source of new water.²⁵ Orange County Water District in cooperation with Orange County Sanitation District has launched a \$485 million project to use 21st Century technology to treat their Sanitation District Water to drinking-water level and use it to replenish their aquifer. Reduced use of imported water is an environmentally significant contribution to ecological health and sustainability in this dry state. Orange County has a long-term goal of moving toward sustainability and speaks of looking toward a time when they will not need imported water. A similar goal for Claremont might involve replenishment of the aquifer with treated water, thus making it possible to increase groundwater pumping from local wells and reduce our summer dependence on expensive imported water.

Increased use of **gray-water systems by homeowners** (that is, reclaiming on one's own property uncontaminated wash water for use on landscaping and lawns) is relatively simple and could reduce the need for imported water. Experts tell us that in the future all areas of the water-starved world must develop ways to use and reuse water. Do Claremont ordinances encourage gray-water use?

Stormwater impoundment of urban run-off is a major potential source of water for the future, and one already being initiated. In wet years, such as 2004-2005, everyone in Southern California bemoans wasted water flowing into the sea. The recent issue of *WatershedWise*²⁶, published by the Los Angeles and San Gabriel Rivers Watershed Council, offers a series of essays and practical plans being implemented in urban localities. Vegetated roofs, sometimes called green roofs or living roofs, prevent run-off while keeping buildings warm in winter and cooler in summer. Germany has been developing this technology for several years. An impressive example, claimed to be the largest in the world, is the Ford Motor Company's 10 1/2 acre living roof on its Rouge River Plant in Dearborn, Michigan. In Los Angeles, there is a new green roof on the Science Center School in Exposition Park, and in Pasadena a green roof at the Art Center College. Gap Inc. headquarters in San Bruno, CA, finds their green roof insulates them from the noise of the San Francisco airport. Long Beach Aquarium's living roof features native coastal grasses. The University of Redlands has a new Environmental Center about half underground, with a roof planted with native plants. Saving water, saving energy, these are roofs for the future.

In the future, even inner-cities will feature huge parks built over the city. Los Angeles now has a beautiful garden on the third level of Disney Concert Hall, accessible to all from the public sidewalks. Another Frank Gehry Concert Pavilion opened in the center of downtown Chicago last July, in a 24-acre park, with a "green roof" over the top of a huge parking garage and commuter train terminal. There half a million visitors a week explored an idea Mayor Daley brought home from travels in Europe. City dwellers

were impressed with the capacity of the green roof to mitigate the "urban heat island effect" which has marred inner city life. Absorbing water like a sponge, green roofs reduce flooding and storm sewer

²⁵ Orange County Water District. *70 Years of Enhancing Nature's Groundwater*. CA, Fountain Valley, 2005 p. 10.

²⁶ *WatershedWise*, Newsletter of the Los Angeles and San Gabriel Rivers Watershed Council. Vol. 9, No. 2. Special issue: Stormwater. Best Management Practices: A Primer. Summer/Fall, 2005.

overflows, filter out pollutants, oxygenate city air, attract birds and insects²⁷—and save storm water from being lost to city use.

An impressive collection of practical approaches for individuals and communities is outlined as the Los Angeles/San Gabriel River Watershed Council's "Best Management Practices" for saving storm water. Replacing impervious surfaces, installing catch basins or cisterns, assuring efficient irrigation for homes and commercial landscapes, designing vegetated swales, planning road plantings and buffer strips or parks and playing fields to absorb water, building wetlands and detention ponds which slow run-off—all offer major new approaches any community can initiate to save more water for urban uses.

A major federally funded transportation bill, SAFE-TEA, carries innovative proposals for environmental enhancements of roadways for local cities added to the bill by Representative Linda Sanchez. In Whittier a stream-like bio-swale, natural landscaping, and a meandering path along a new roadway will allow water from run-off to flow through curb cuts and be naturally absorbed and filtered into ground water.

For those persons worried that runoff will pollute the aquifer, another project of the Watershed Council has been a long-term research study exploring possible pollution from infiltrating run-off into aquifers. For four years researchers have monitored water infiltrated from six sites: two industrial sites, a school, a commercial building, a private residence, and a parking lot beside a park. Their conclusion states: "There is no significant degradation of groundwater quality from the infiltration of storm water-borne pollutants at these sites. In fact, groundwater quality has generally improved. . . . Soil appears to be very efficient at removing bacteria from storm water, and at trapping metals and other constituents."²⁸ The long-term goal of this project is to develop a comprehensive regional strategy for implementing reduction of runoff and water saving for Los Angeles County.

Population Impact on a Sustainable Water Supply

California is continuing to experience a real population explosion. From 10.5 million people in 1950 to 34.5 million in 2005, this state is expected to grow to at least 50 million by the year 2040. Yet every new person added to the state of California makes a demand for approximately 140 gallons of water every day. Of all human needs, none is more intractable than the need for water. Population increase exacerbates water problems. But sometime in the future the population will simply have to stabilize because of the uncompromising need for water for all. Understanding and addressing water problems is not a task only for experts; it is becoming a concern for every resident. There are no easy solutions.

Concern about Possible Takeover by International Corporations

In the past several years, "privatization" of local water companies, a move under NAFTA trade agreements, has defined water as a valuable commodity, which can be bought and sold like any other commodity. This has made water companies attractive for purchase by multinational corporations seeking new sources of profits. Buy-outs by huge conglomerates allow transfers of assets or operations of the water system to other states or parts of the world. Corporate boards thousands of miles away then make decisions about rates and repairs for local communities. The largest of the corporations operating water facilities for profit are French: *Suez Lyonnaise des Eaux* and *Veolia Environnement*. There are also a large

²⁷ Cathy Shufro, "Living Roofs. Green Miracles that also Cool Buildings" in *Population Press, The Road to Sustainability*. Redlands, CA Summer-Fall Issue, 2005.

²⁸ Suzanne Dallman, "Water Augmentation Study Monitoring Results Are In." *WatershedWise*, Newsletter of the Los Angeles and San Gabriel Rivers Watershed Council. Vol. 9, No. 2, pp. 6-7. Special issue: Stormwater Best Management Practices: A Primer. Fall, 2005.

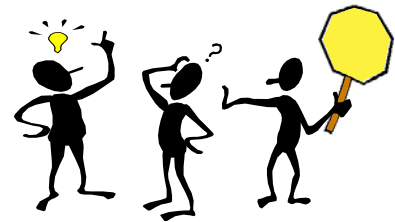
German-British company, *RWE AG-Thames Water*, a German company, *Siemens*, which last year bought US Filter, and a US company, *Bechtel-United*. Cities which have had their water companies sold to one of these international business ventures include Stockton, Felton, and Palm Desert, CA; Lexington, KY; Emmaus, PA; Atlanta, GA. In 1998, Atlanta signed a 20-year agreement with a Suez subsidiary, and five years later went to court against the company charging mismanagement, enormously increased rates, poor water quality and service, and fraudulent billing. The other cities listed have had similar experiences and undertaken court action to remedy problems.²⁹

The State League Board in September, 2004, adopted a "Water Privatization Checklist" based on current League water positions. Written by Jack Sullivan and Roberta Borgonovo, state water consultants, this list gives local Leagues direction in evaluating positive and negative impacts of globalization.

We asked the Senior Vice President of the Golden State Water Company about possible globalization of its water resources, and were told "The Company received a request for information from one of the international conglomerates, but nothing came of it." Hearers could hardly avoid thinking, "At least, not yet!" An international company two years ago bought the New Orleans Water Company. (Wonder how they are doing now?) Another has recently purchased the desert water operation of Palm Desert, buying out U.S. Filter, formerly a successful Fortune 500 company. Who's next?

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### ***Would local ownership keep water under local control?***



### **Some cautionary remarks for public decision making:**

- If Claremont is to buy the water system, there must be broad public support and understanding of the issues by citizens. Buying our own water utility would not lower water rates now. Indeed, costs to consumers would almost surely be higher for the early years of paying off bonds. Long-range rates and rate increases, however, might well be considerably lower. Council, staff and public should openly and thoroughly address Advantages and Disadvantages of public ownership of this utterly necessary public utility.
- Legally, the City Council can make a decision to sell revenue bonds and to buy the water service. How should the public weigh in on this decision?
- Should the Council be encouraged to try to negotiate a purchase under new city leadership?
- If negotiations are not successful, should the City initiate eminent domain proceedings? Or do the uncertainty and high costs make that unwise?
- If there is a decision to purchase the water service, should the purchase be made with Revenue Bonds? Or should it be financed by some other method?
- What adjustments in rates or assessments would make paying off the purchase equitable and fair to all residents?

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<sup>29</sup> *Reclaiming Public Assets: From Private to Public Ownership of Waterworks. Washington, D.C., Public Citizen's Critical Mass Energy and Environment Program, Sept. 2002.*

Whether Claremont buys its water system or not, water is a finite resource and in the business world is increasingly being viewed as a commodity. Water costs undoubtedly will continue to go higher in the years ahead. Predicting how much rates will rise is impossible. Disagreements on this and other points are to be expected. Respectful consideration of others' views is important if we are to work together, and is absolutely essential if the City is to emerge from this effort as a neighborly and forward-looking community.

## **Advantages And Disadvantages Of Claremont Buying The Water Company**

### **Advantages**

Water is an essential natural resource. Public ownership would mean holding it in trust for all. "Water for life, not for profit."

Most of our neighbors own their water companies. Their experience shows the advantages, expected and unexpected, of public ownership. If we owned our water company cooperative programs could be to our mutual benefit.

Bonds would be expensive, it's true, but the cost could be offset by efficient operations, no need to pay profits, and control over rising prices. Over time, rates could be lower – more like LaVerne's.

Rates would be set locally, based on open records and actual costs of water and services – not by far-off managers, big companies, and the PUC.

Economic fairness could be built into a tiered-rate structure; local conservation education could benefit all citizens and the environment.

Possible future sale of our water resources to an international cartel without public consent or warning – as has happened to Stockton, Palm Desert, and Atlanta, GA – scares people who are attentive to international finance. Public ownership could prevent such a sale.

### **Disadvantages**

The projected purchase price is too high. As GSWC does not want to sell, they will make the price as high as possible. We can't afford that.

We don't know the condition of the mains and pumps and might face expensive repairs. It's better to leave that job to GSWC.

People will expect the City to keep rates low, and be disappointed or angry if that doesn't happen.

Politics within the City Council might adversely affect operation of the Water Company. Or contention over the purchase might foster incivility and acrimony by raising issues on which people have widely conflicting views.

If the Council had to go to eminent domain proceedings, legal battles might be long-drawn-out and very expensive. That could make the process of purchase very uncertain.

The City would have to set up a department to manage the system or contract it out. A long-term contract with GSWC would have us paying millions to own the company and then paying for repairs and management at citizen expense. That's not a good deal.

## **In Conclusion — Claremont Faces Two Alternatives:**

### **1. Buy the water services and run them as a City enterprise.**

Eighty-five percent of all water services in the US are now in public hands. Would Claremont water supplies be safer in a city-owned company, in public hands? Might citizens encourage government to exercise a stewardship function and better coordinate utilization of ground water with surface water? Could a city company better promote conservation and protection of the natural environment? Would local, public ownership provide more openness to citizen points of view and public knowledge of operations? Could rates be lower, more comparable to neighboring cities? Would Claremont ownership be protection against our water being sold on the international market?

### **2. Stay with GSWC as owner/provider of Claremont water service.**

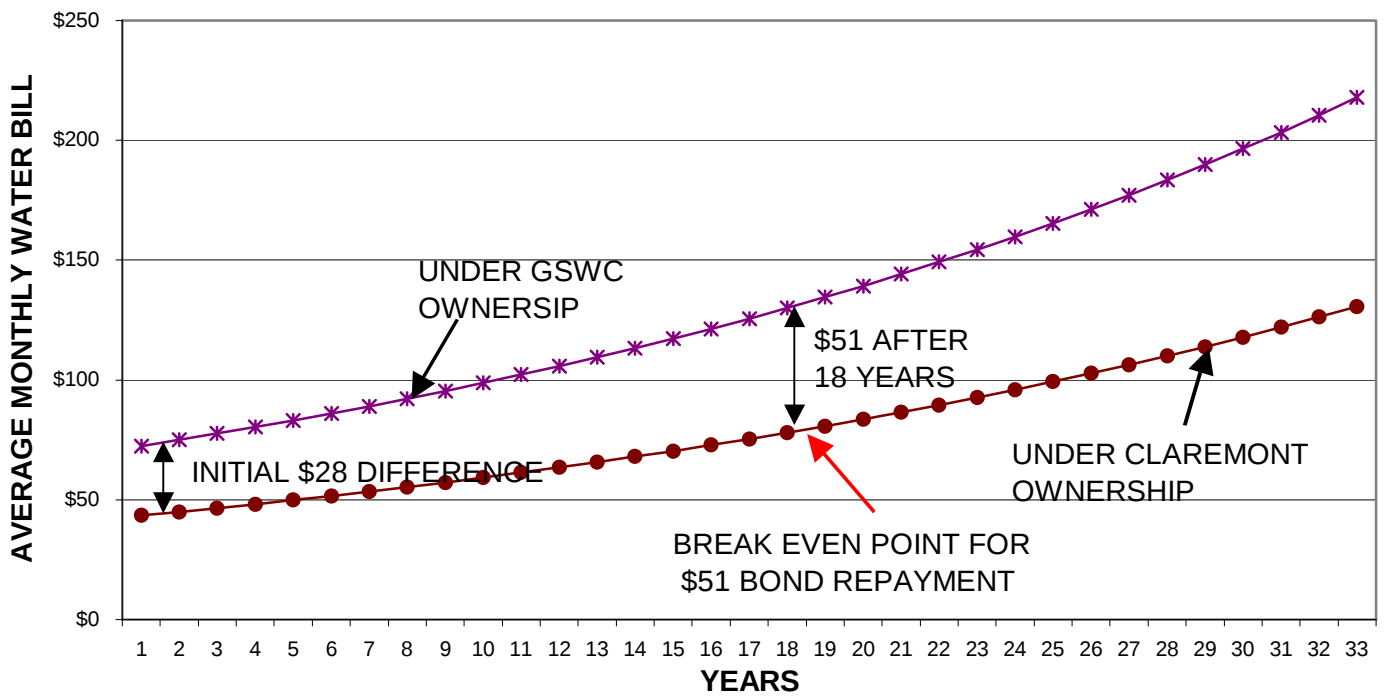
Would our future be best served if Claremont water continues in the hands of a private corporation? Would Claremont be better off to stay with a large, well-managed corporation where it participates as a small section of the big orange? Should the City take over a system the complexity of which we only begin to grasp? Can we offset economies of scale with efficient local operations? Are the issues so divisive that a sense of community would suffer? Might we be faced with a takeover by an international water company, higher rates, poorer service, and less concern for our local needs?



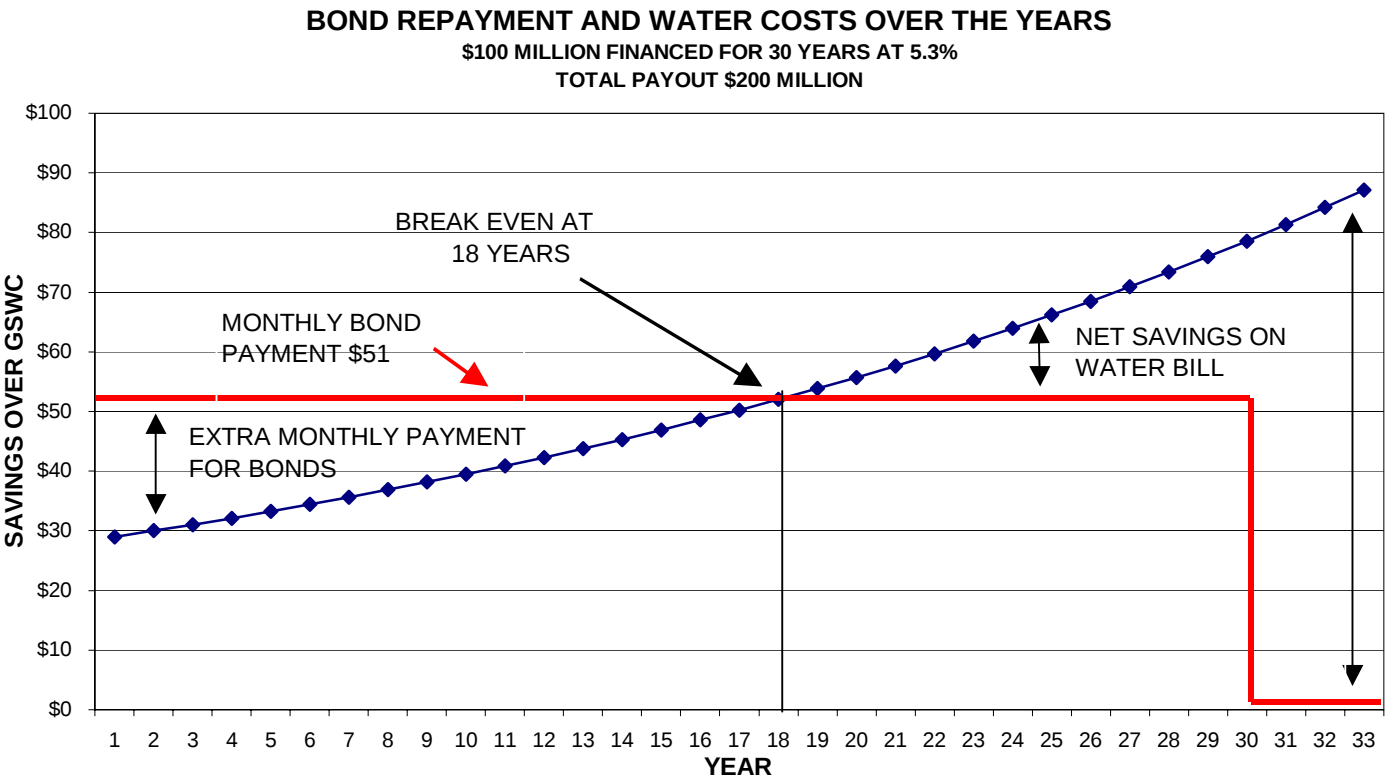
Like the elephant in the living room,  
these issues are much too large to be ignored.  
We hope all residents will become informed and participate  
in a fair and reasonable discussion of these significant public issues.

Graph 1

CLAREMONT WATER RATES 3.5% ANNUAL GROWTH



Graph 2.



Graph 3.

**BOND REPAYMENT AND WATER COSTS OVER THE YEARS  
REFINANCED AFTER 11 YEARS**

