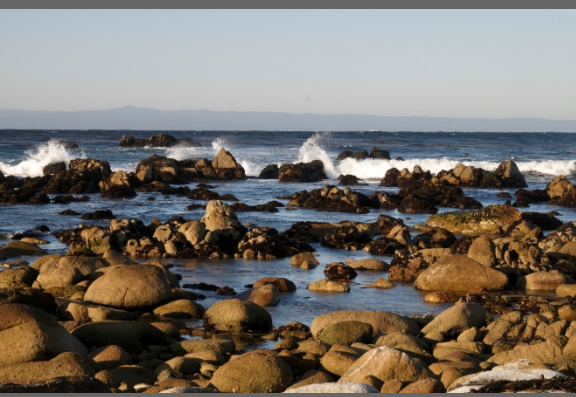




CALIFORNIA
AMERICAN WATER



**California American Water
Monterey District**

The True Cost of Condemnation

August, 2018

California American Water

- American Water -- parent company
- 100% common stock on NYSE
- 128 years of service
- 15 million people in 47 states

Facts about the California system:

- 55 communities
- 170,000 connections
- 600,000 population
- 280 employees



Voting “No” to Government Takeovers

- ❑ 1935 – Rejected – 66% vote “No”
- ❑ 1965 – Rejected – 78% vote “No”
- ❑ 2005
 - Voters reject government takeover of Monterey via Measure W
 - 63% vote “No”
- ❑ 2014
 - Voters reject government takeover of Monterey via Measure O
 - 55% vote “No”

**2018 November Election
once again.....**

Financially Feasible -- Sounds Innocuous But Is It?

- What is feasible?
 - Webster's: "*Capable of being done or carried out*"
- Acquire all water assets not just Cal Am's
- 9 months to submit plan
- No spending limit
- Who pays the bill?
- Governments Historically Undervalue and Overpromise

The Condemnation Process in California

- LAFCO process
- Identify or create condemning authority
- Prepare appraisal
- Pre-condemnation offer and negotiations
- Resolution authorizing condemnation
- Election on tax increase to fund condemnation (2/3 vote)
- Phase I: Bench trial on "right to take" and public necessity
- Phase II: Jury trial on valuation
- Not a free look: Owner's fees paid**
- Generally a 5-10 year process (with appeals)

Right to Take Not Absolute in California

Water company may rebut the presumption of necessity at trial.

City of Claremont v. Golden State Water Company (2016)
(Superior Court December 2016):

“Judge Rejects Claremont’s Bid for Local Water Control”

Claremont Courier
November 17, 2016

“Water Co. Wins 7.6M After Calif. City Loses Takeover Bid”



March 14, 2017

Public Ownership Not Presumed Superior

“Public acquisition by eminent domain **cannot be justified by the fact that, after fair compensation is paid, the public entity will own a valuable asset.** If that were the case, public acquisition could always be justified as an investment strategy. The statutory scheme instead requires that the **acquisition be 'required'** in ‘the public interest and necessity’ and be **‘a more necessary public use.’** The public acquisition must provide a **significant public benefit** apart from the value of the assets that are paid for in the eminent domain process.”

City of Claremont v. Golden State Water Company, Case No. BC 566125, (Superior Ct. Dec. 2016).

A Waste of Public Funds

City of Claremont Settlement:

- \$2 million to Golden State Water up-front
- \$2.8 million to Golden State Water in interest over 12 years
- Plus \$5.8 million should City of Claremont try to condemn again within 12 years
- Not to mention City of Claremont's own \$6+ million in attorney's fees...

Claremont Councilman Sam Pedroza:

“We did everything that we could. A lot of lessons learned – a lot of expensive lessons – but today’s decision ends this chapter.”

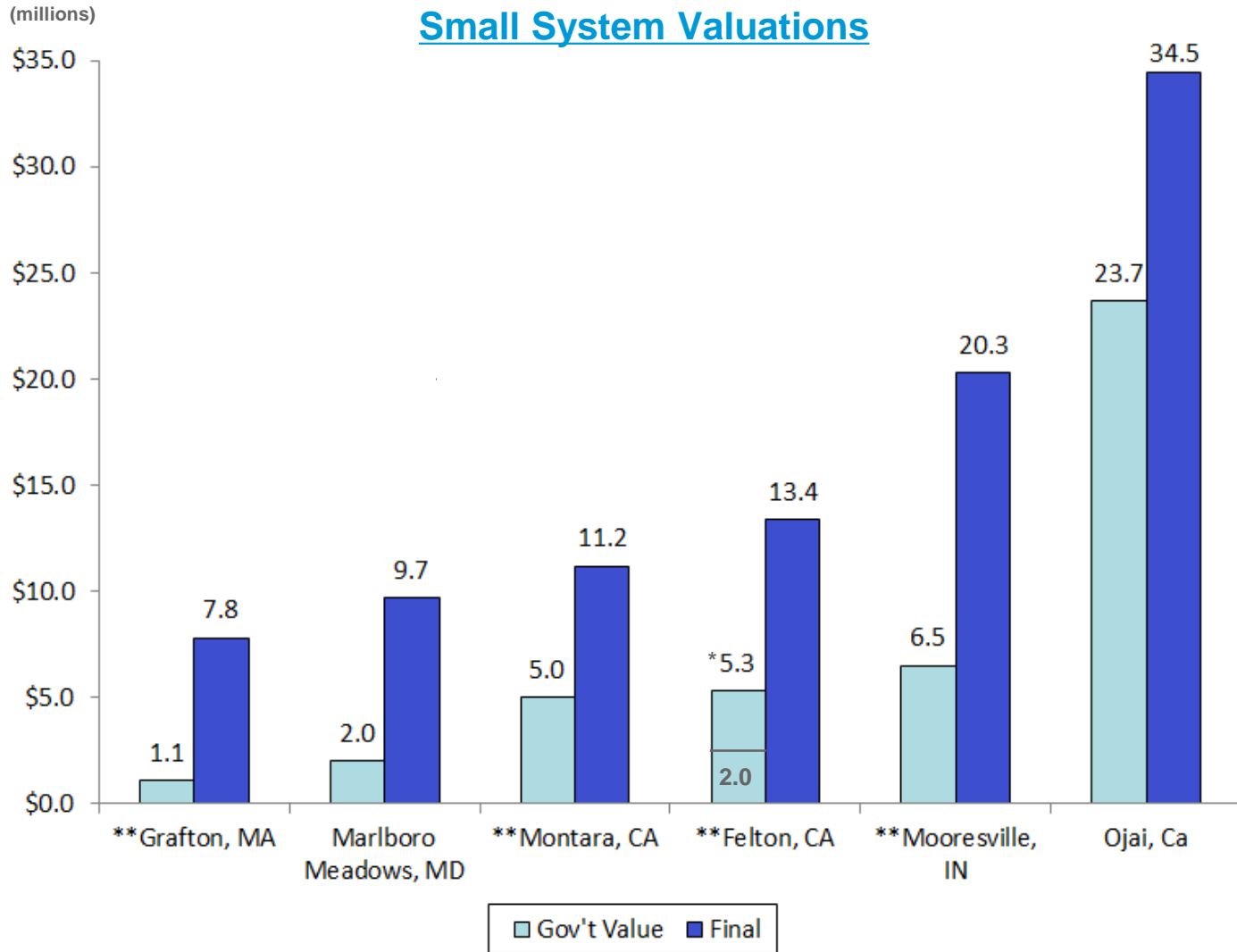
The Standard of Value in California

The current fair market value of all the company assets as of the date of valuation – not simply what is reflected in Rate Base.

California law says: Fair market value is the **highest price** for the property a willing buyer would pay in cash to a willing seller.

Plus severance damages.

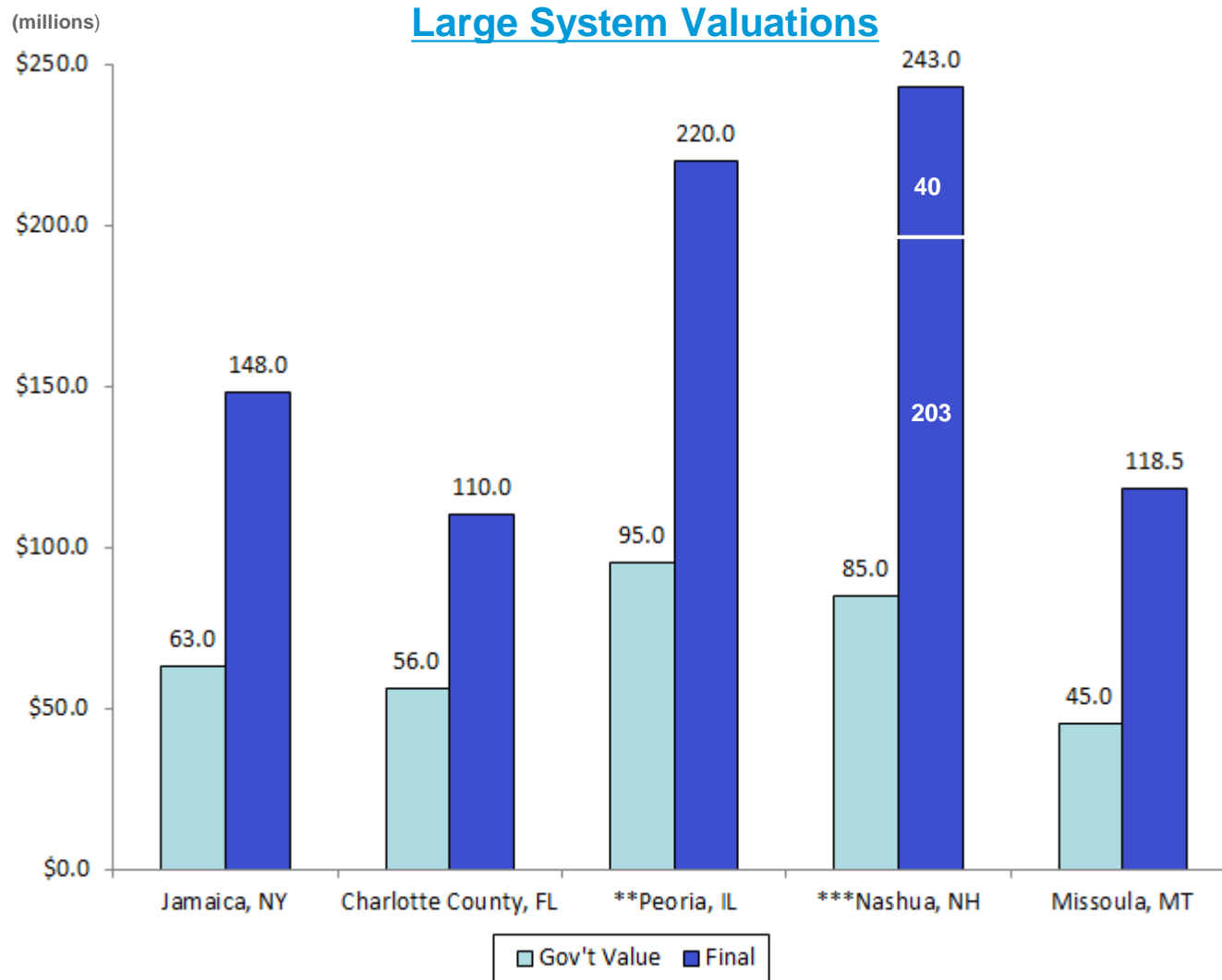
Government Valuation vs. Actual Price



*operating assets

**denotes American Water system

Government Valuation vs. Actual Price



**denotes American Water system

***entire system subsequently sold as stock sale for 198 Million

City of Peoria, IL decided not to buy the water system.

A Case Study

Felton, CA
2008

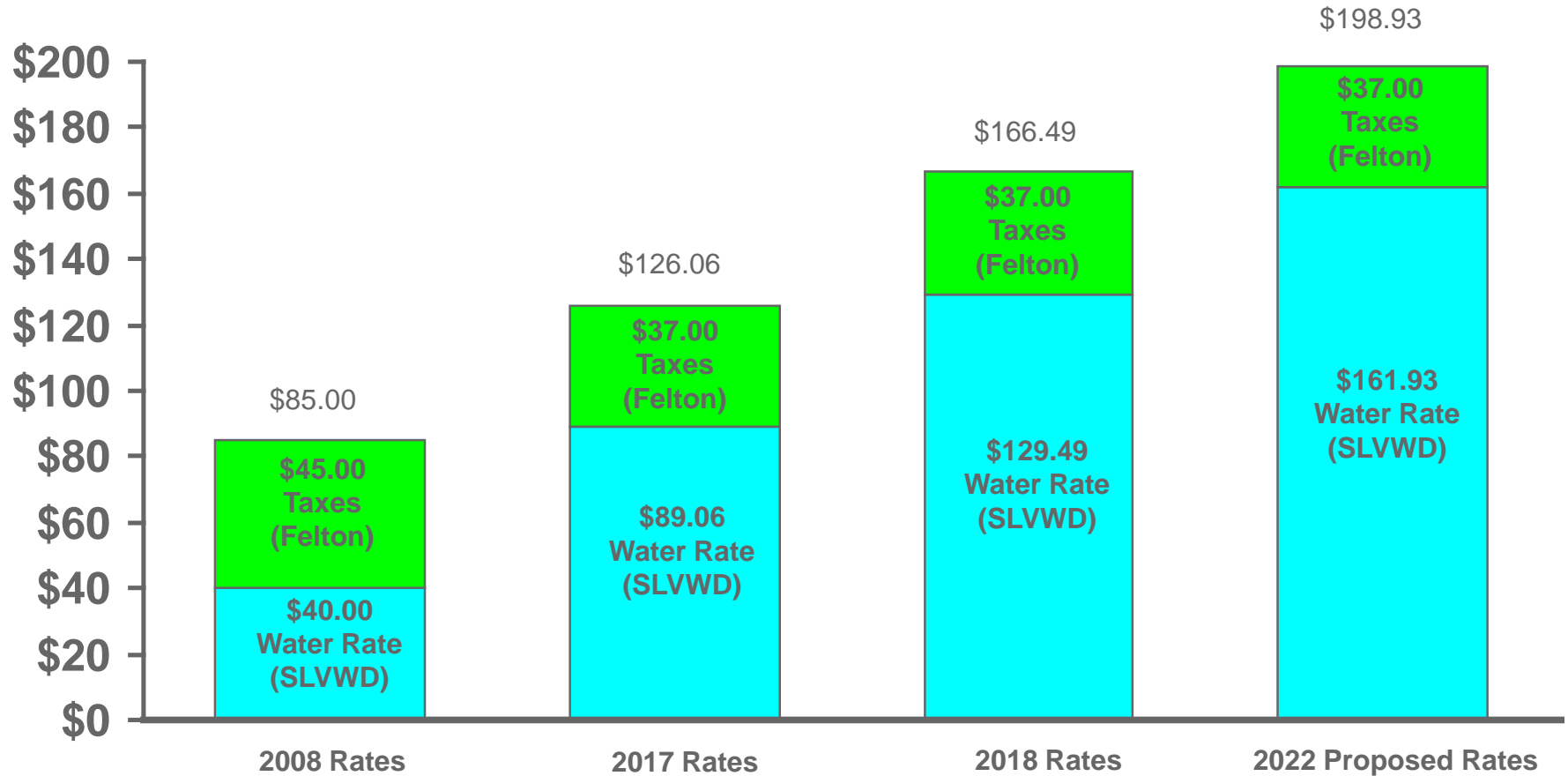
How Does Monterey Stack Up?

Description	Monterey	Felton	Similar?
Communities Served	13	1	NO
Service Area	58 square miles	1.6 square miles	NO
Connections	40,750	1,320	NO
Water Mains	635 miles	25 miles	NO
Fire Hydrants	3,423	93	NO
Water Source	36 active wells groundwater/surface water/desal	1 well, 4 springs/creek	NO
Storage Tanks	105 (35 mg)	5 (.57 mg)	NO
Pump Stations	72	2	NO
Employees	100	5	NO
Number of Dams	1	0	NO
Regulatory Order	Yes	No	NO
Rate Base	\$149 million (2017)	\$3.3 million (2006)	NO
Fair Market Value	?	\$13.4 million	

California American Water Felton Timeline and Costs

- ❑ January 2002 – California American acquires Felton system
- ❑ November 2002 – Officials estimated cost of takeover at \$2 million
- ❑ July 2005 – \$11 million G/O Bonds approved to fund takeover
- ❑ February 2007 – Eminent domain filed
- ❑ May 2008 – SLVWD pays \$13.4 million for system
 - \$10,100 per customer
 - \$16,200 per customer with debt service
- ❑ Takeover expenses – \$1 million on studies, legal and expert fees as of December 2007.

Felton Water Rates

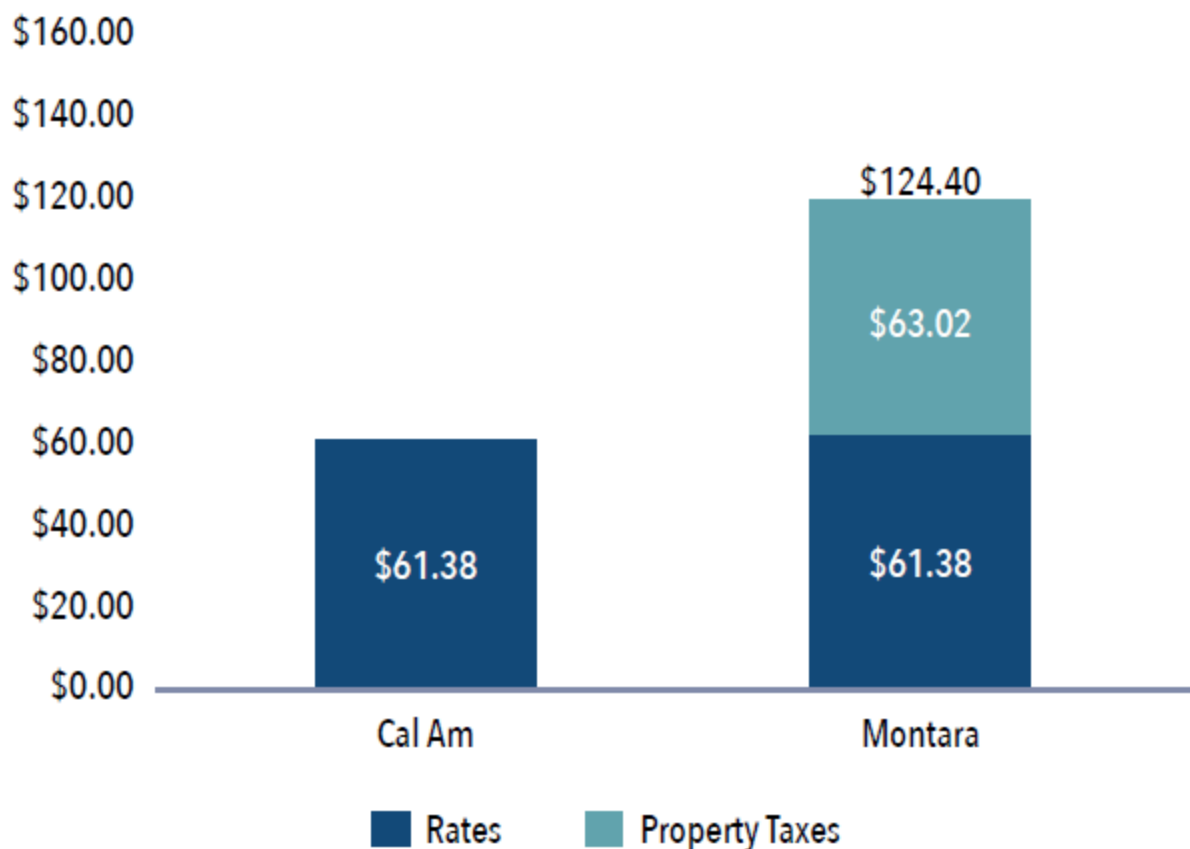


10 CCF Usage

Montara, CA

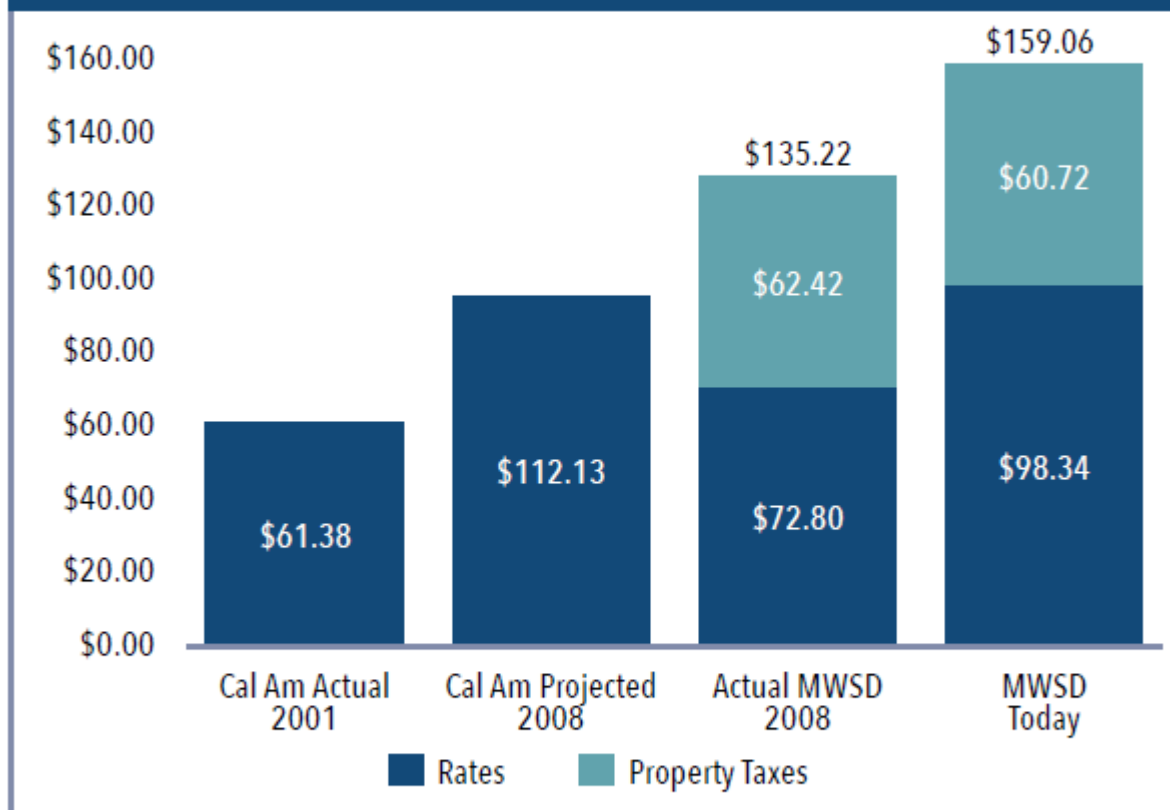
Not a Takeover Poster Child

Rates: Cal Am vs. MWSD as of takeover in 2002



Based on a 2005 rates presentation by MWSD.

Rates: MWSD Projected vs. Reality



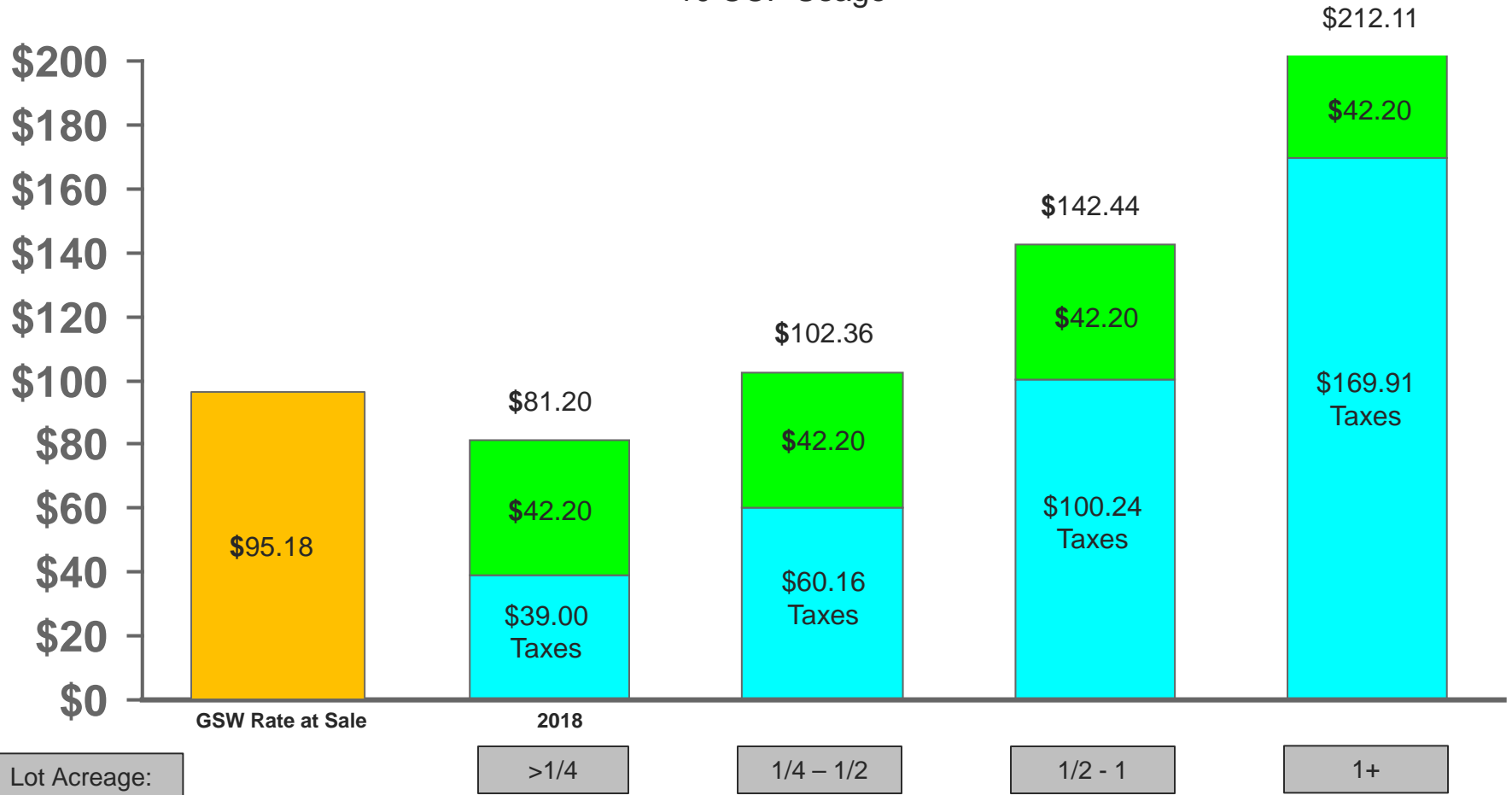
Notes: 1. Assumes 8 CCF of consumption per month. 2. Montara Projected Cal Am in 2008 is estimated based on the assumption of 83-percent rate increase in 2001 to 2008. 3. Property taxes are calculated by dividing the year 2008 bond payments by the number of service connections in Montara. 4. The MWSD water rate for 2008 is taken from the 2013 Water Rate Study. 5. Rates are as of the second half of years of 2001 and 2008.

Ojai, CA

Be Careful What you Ask For!

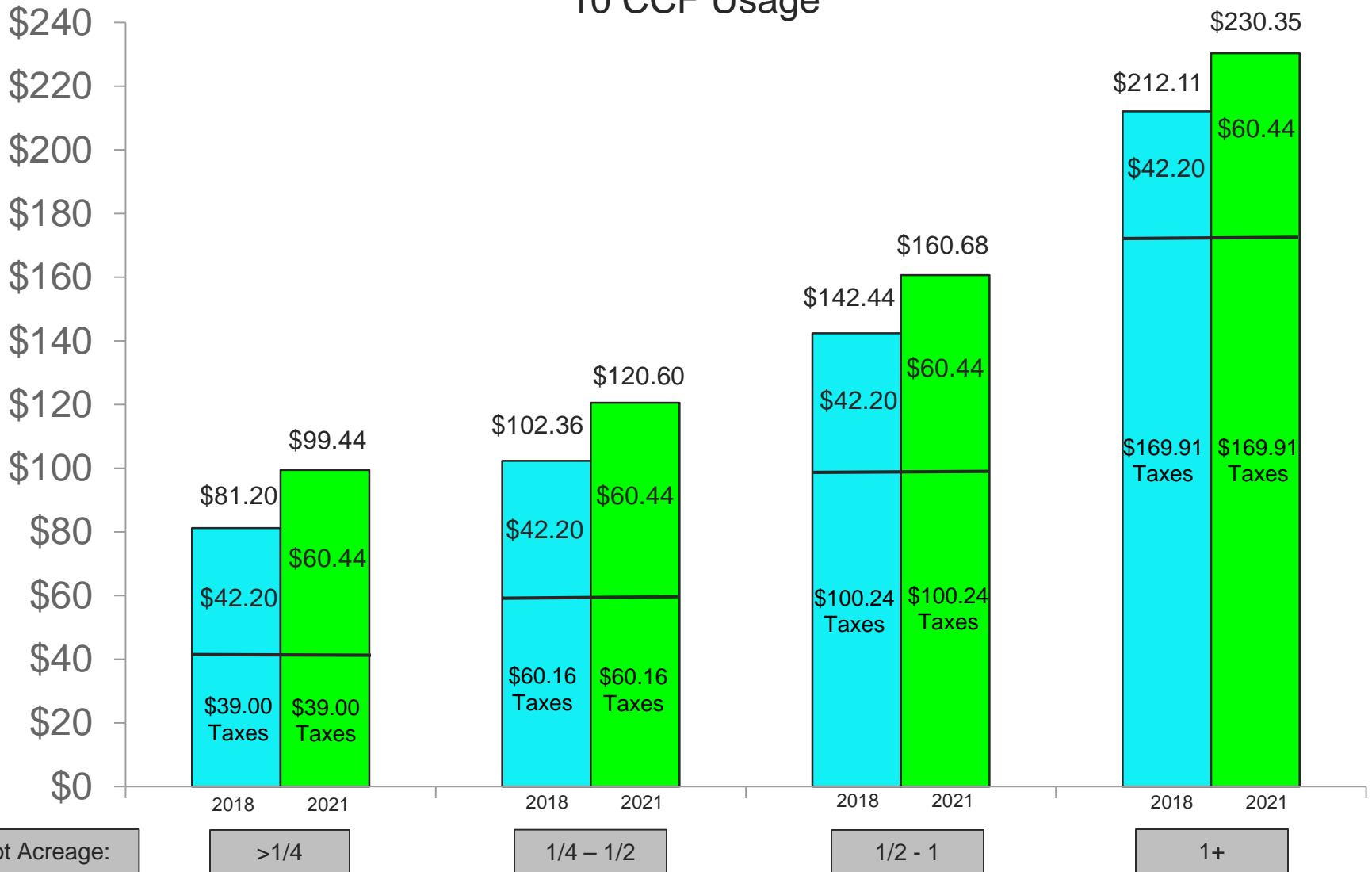
2018 Ojai Water Rates

10 CCF Usage



Ojai Water Rates 2018-2021 -- 43% Increase

10 CCF Usage



A Walk Down “Feasibility Lane” is Fraught With Costly & Unintended Consequences

- Feasibility study costs
- District’s attorney’s fees
- District’s expert fees
- California-American’s attorney’s fees
- California-American’s expert fees
- Opportunity costs – a huge diversion of time, focus, and resources
- Water Supply Project will proceed.....
- District’s financial issues will continue....
 - Unfunded Pension liability -- \$4.9M
 - Unfunded OPEB (retiree medical benefits) – \$3.2M

The Effects of Contested Government Takeovers of Investor-Owned Water Utilities

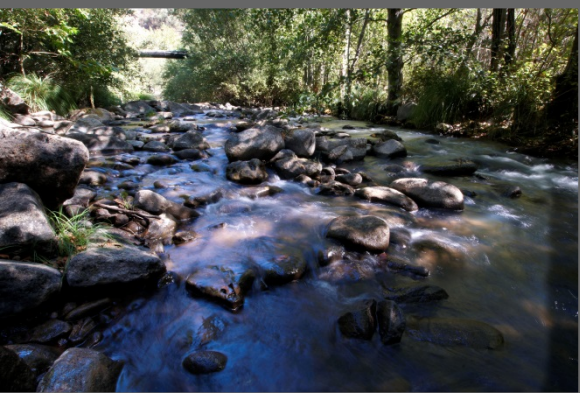
- Government ownership fails to deliver promised rate benefits to customers.
- Change of ownership to government placed financial burden on customers and taxpayers with no compensating benefit.
- No accounting or economics basis to support “elimination of profits” as a compelling benefit to customers.
- Local governments and takeover advocates regularly underestimate acquisition costs.
- Contested takeover efforts are extremely costly to governmental entities and place significant economic burdens on ratepayers and taxpayers above and beyond the cost to acquire the water system.

Source: Analysis Group

Conclusion and Q&A



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