

The California State Auditor released the following report today:

Apple Valley Area Water Rates

Differences in Costs Affect Water Utilities' Rates, and One Utility May Have Spent Millions of Ratepayer Funds Inappropriately

BACKGROUND

Four water suppliers—Apple Valley Ranchos Water Company (Apple Valley Ranchos), Golden State Water Company (Golden State), Hesperia Water District (Hesperia), and Victorville Water District (Victorville)—serve customers around the Apple Valley area. Two of these water suppliers—Apple Valley Ranchos and Golden State—are privately owned and regulated by the California Public Utilities Commission (commission), while the other two are public utilities. All four obtain water by pumping groundwater from natural aquifers within the Mojave Groundwater Basin and allow opportunities for public input when setting rates.

KEY FINDINGS

During our review of water rates charged by the water suppliers in the Apple Valley area, we noted the following:

- Water rates at the four utilities are affected by a number of cost factors and differences and thus, the utilities charge different rates to customers to cover their costs.
 - ✓ Although Golden State had the highest water rate of the four utilities we reviewed, Apple Valley Ranchos had the highest average monthly residential water bill because its customers used, on average, more water per month than Golden State's customers—the amount of water used will affect the amount that customers pay.
 - ✓ Private utilities charge more because they have costs to cover that public utilities do not, such as property or income taxes.
 - ✓ Public utilities receive certain revenues that private utilities do not—public utilities can keep rates lower for customers because they receive a portion of their revenue from property taxes and also collect fees for new connections.
- Although public utilities are not allowed to offer discounts to low-income customers using revenue from water fees, they could by using revenue from other sources such as their city's general fund. We found that only the private utilities—Apple Valley Ranchos and Golden State—currently offer discounts to low-income customers.
- Victorville's water district made a series of questionable and possibly unlawful decisions.
 - ✓ Victorville loaned nearly \$21.9 million in ratepayer revenues to the city of Victorville at a very low interest rate and during the time these loans were outstanding, it borrowed \$20 million at a significantly higher interest rate, which resulted in \$4.6 million in unnecessary interest cost.
 - ✓ It spent \$31 million to construct an industrial wastewater treatment plant, which was primarily to benefit a single customer—a commercial beverage manufacturer—and which has not yet provided any benefits to water ratepayers. Victorville used a \$20 million loan and an additional \$11 million, which came from ratepayer revenues, including water delivery fees that may be in violation of Proposition 218.

KEY RECOMMENDATIONS

We made the following recommendations:

- The water districts should document their cost-saving efforts and quantify any specific cost savings achieved from their respective efforts to demonstrate how they are working towards keeping rates down.
- Hesperia and Victorville should consider the feasibility of using revenues from sources other than water rates to implement rate assistance programs.
- Victorville should revise its policies to prohibit transfers or loans of water fee revenue for nonwater purposes and to specify the circumstances under which it can invest water revenues, and it should seek reimbursement from the city for its unrecovered interest and construction costs.