ANALYSIS GROUP
ECONOMIC, FINANCIAL and STRATEGY CONSULTANTS

FACT SHEET

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

The following is a summary of a report by the Analysis Group, prepared for and funded by the California Water Association, which sought to have an independent third-party review of the costs associated with a government take-over of investor-owned public utilities that provide drinking water service to local communities. The report quantifies the economic effects of contested changes in ownership of water utilities from investor-owned to government-owned. The report is not intended to endorse or support one ownership model over another (e.g., government vs. investor) and also does not examine the economic effects of negotiated change of control transactions.

Contested government takeovers involve the power of eminent domain; require building significant public support for the takeover effort; are challenged in the courts; can take substantial time; and tend to be costly endeavors. The Analysis Group empirically examined what has happened in past contested transactions to learn more specifically about the economic impact of contested takeovers on utility customers and local taxpayers.

This report presents the results of case studies of four systems where eminent domain proceedings were initiated: Felton and Montara in California; Nashua, New Hampshire; and Missoula, Montana. Additionally, the report examines assumed savings from municipalization and actual costs incurred during contested transactions.

The results of this report illustrate that contested takeovers are typically very costly for the acquiring government entity and do not necessarily result in lower rates or better service than private ownership post-takeover.

The key findings are:

- Government ownership of the Montara and Felton systems has failed to deliver the rate benefits promised to customers.
- Change of ownership, from investor to government entity, places immediate and substantial financial burdens on customers and taxpayers for which there is no compensating benefit.
- Advocates of government takeover typically identify the elimination of "profits" and taxes as two sources of financial benefits from a change in ownership. There is no sound basis in accounting or economics to support the expectation of real benefits to ratepayers, in the form of lower bills, from the elimination of these sources.

- Local governments and advocates of government takeover tend to underestimate acquisition costs - sometimes by more than 100 percent.
- Contested takeover efforts have proven to be very costly to government entities. The costs incurred to support eminent domain litigation and to finance the acquisition represent a significant economic burden on ratepayers and taxpayers, above and beyond the cost to acquire the system.

Some notable takeaways:

- The San Lorenzo Valley Water District (SLVWD) acquired the Felton system for $13.4 million, 76 percent more than the District's appraised system value, and nearly one-third of the acquisition cost was funded by SLVWD customers who do not live in Felton.
- The direct financial burden on Felton customers increased after the takeover by SLVWD. Before the takeover, the average customer in Felton paid a monthly bill of $78.64. Under SLVWD ownership, that same customer paid a monthly bill of $40.38, as well as an additional $44.62 each month in property taxes for debt service on the acquisition bond, for a total financial burden of $85.00 per month.
- The takeover in Montara did not result in lower rates or produce excess revenues. After the takeover, Montara residents paid identical water bills, plus an additional burden in the form of higher property taxes to pay for the 25-year general obligation bonds used to acquire the system and finance system improvements.
- Nashua's acquisition of the Pennichuck Corporation, operator of the Pennichuck Water Company, cost the City $198 million – approximately $63 million more than the City had originally offered in 2003. The City was also responsible for an additional $28.6 million in costs related to the transaction.
- Missoula's $50 million acquisition offer to the owners of the Mountain Water was 77 percent less than a court-determined valuation of $88.6 million, and when all the transaction costs are determined, the final cost to the City of Missoula may well be 100 percent more than the City's formal offer.

Analysis Group is one of the largest private economics consulting firms in North America, with more than 700 professionals across 11 offices in the United States, Canada, and China. Since 1981, we have provided expertise in economics, finance, health care analytics, and strategy to top law firms, Fortune 500 companies, and government agencies.

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