

David versus Goliath in the Redwoods

By Patrick McCormick, Santa Cruz LAFCo Executive Officer



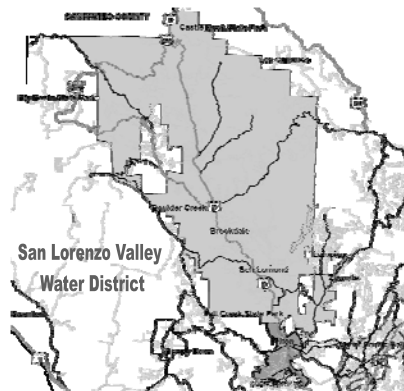
Fifty years ago, the San Lorenzo Valley was a series of small communities along a river in a redwood forest north of Santa Cruz. The local economy was based upon logging and summer tourism. The valley's population has since grown and changed to become five unincorporated communities where relatively affordable full-time homes are located for people who work elsewhere in Santa Cruz County and "over the hill" in Santa Clara County.

In 1965, upon the urging of valley residents, the San Lorenzo Valley Water District (SLVWD) decided that the valley's series of small funky water systems should be fixed up and interconnected. Felton and several of the towns in the SLVWD were served by separate systems owned by the Citizens Water Company. SLVWD prepared to sell bonds to acquire the water systems owned by the Citizens Water Company. The majority of the people in Felton liked their small water company and feared that the water district's plans would result in costly water. So, by mutual consensus, Felton was left out of the district boundary and the assessment. Using eminent domain, the SLVWD completed the public acquisition of the other water systems in the valley.

When LAFCo drew the first water agency spheres of influence in the San Lorenzo Valley, it excluded Felton from any public agency's sphere. LAFCo was protecting the turf of the Citizens Water Company. Everything was fine and dandy until the Felton system was sold to a large American water corporation in 2001 and sold the next year to a larger European corporation. The new owners proceeded to make a series of operational changes and filed for large rate hikes with the California Public Utilities Commission (PUC). The residents

of Felton organized to fight the rate hikes and the lack of any local control over the water system. They were confounded why water service in Felton should cost a lot more than the four other communities in the valley that had virtually the same water sources and service geography.

The Feltonians organized a non-profit and lobbied the County government and the water district to help argue their position with the PUC. The water company's position was that the Felton system wasn't for sale and that they would continue to file for rate increases as permitted under the PUC's rules.



After not being able to get a sympathetic ear with the PUC, the Feltonians convinced LAFCo to amend the SLVWD sphere of influence to include Felton, and convinced the Board of Supervisors to call for an election to form a Mello-Roos Community Facilities District. The purpose of the Mello-Roos District was to provide financing through the sale of bonds to buy the Felton water system and convey it to SLVWD for operation. Their theory was that, with public ownership of the system, their property tax bills would go up and their water bills would go down. They estimated that their break-

even point would be several years into the future, but not in the distant future. In 2005, the Board of Supervisors met in Felton to consider calling an election on the Mello-Roos District assessment. The subject service area in Felton contained approximately 1310 connections. The election would authorize up to \$11,000,000 in bonds to cover the acquisition process and purchase price. The projected maximum cost to a typical homeowner was \$696 per year for 30 years. The Feltonians in the hall gave the Board a standing ovation for deciding to call the election, and the assessment subsequently passed with a 75% affirmative vote.

The PUC authorized two rounds of rate hikes over the objections of the Felton customers and the County. The PUC has also refused to order that the company divest its Felton system by selling it to a public agency. Most recently, the European corporation that bought into the US market enthusiastically in 2002 has announced that it is not satisfied with its returns and will be selling off all its US interests in an Initial Public Offering. The Wall Street Journal ("Dry Hole, Great Expectations for Private Water Fail to Pan Out," June 26, 2006) quoted the CEO of the European corporation as saying that water is a "very local business" where a global corporation "just doesn't have outstanding advantages."

The corporation is poised to sell off its U.S. interests in the stock market; however, it has refused to sell off its Felton system to a willing buyer--the people of Felton. Using funds from the Mello-Roos assessment, the San Lorenzo Valley Water District has annexed Felton and filed suit to acquire the Felton water system by eminent domain. The case is titled dryly as the "*San Lorenzo Valley Water District v. the California-American Water Company*".

The press is portraying this story as "David v. Goliath." The people of Felton are hoping that, when the final story is written, they will still be David.