

Town of Apple Valley

NEWS RELEASE

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Independent analysis affirms Town financing plan

Apple Valley, CA – May 26, 2017: APPLE VALLEY, CA – Independent Analysis Affirms Town Financing Plan

On May 25, respected economist Dr. Christopher Thornberg released an analysis endorsing the Town's financing plan for the acquisition of the Liberty Utilities (Apple Valley) system. Dr. Thornberg is the Director of the Center for Economic Forecasting at the University of California-Riverside and the founding partner of Beacon Economics LLC.

Dr. Thornberg indicated that the Town's Finance Department had used "very reasonable" financial modeling and very conservative financial assumptions in its assessment of the financial feasibility of acquiring the water system. In contrast, Dr. Thornberg sharply refuted criticisms made by Liberty and a hired economist, indicating that such critiques lacked credibility. "The Town's modeling not only looks well done, it falls in line with what even basic economic intuition would tell us about such a transaction," wrote Dr. Thornberg.

The Town sought the independent review in response to outside criticism of its financial analysis from Liberty Utilities and economist John Husing, who was commissioned by the company to critique the Town's financial assumptions. "Given the amount of criticism that had been leveled against Marc Puckett and the rest of his team, I decided it was important to have an independent economist take a look at the numbers" said Town Manager Frank Robinson. "I'm delighted to see Marc and his staff vindicated in this report."

"The critique by Dr. Husing, at best, strains credulity," Dr. Thornberg wrote. "He uses completely unrealistic assumptions in his modeling." Dr. Thornberg said Husing's conclusion that the bond measure could cost consumers an extra \$502 or \$620 per year is based on an inflated interest rate and a \$150 million purchase price. Husing's 5.25 percent to 7.25 percent estimated bond rate is "almost completely outside the current financial market expectations," Dr. Thornberg wrote. He added that Husing's \$150 million purchase estimate – the maximum allowed under a bond scenario subject to

voter approval – is “much greater than any realistic estimate of the actual purchase price.”

Dr. Thornberg referenced Liberty’s 2015 acquisition of three water systems – including Apple Valley’s – for \$255 million. Based on the number of connections for each of the three systems, “a reasonable estimate would be that the local water utility represents roughly 27% of the purchase price – roughly \$75 million.” Value also can be projected using the water system’s rate base – \$58.4 million in 2015 – or by comparing similar transactions, such as the \$88.7 million public acquisition of the Missoula, Montana water system in November 2016.

He noted that ratepayers in neighboring cities with public water utilities “all pay substantially less for their water than those in Apple Valley.”

A copy of Dr. Thornberg’s report is available at www.AppleValley.org at the “Water Acquisition Information” link.

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