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Sunday, April 16, 2006

Left and right coast watchdogs cast wary eye on municipal water

By LEROY STANDISH / Staff Writer

APPLE VALLEY — The town's potential takeover of two for-profit water companies is fraught with potential pitfalls, according to representatives from the Cato and Rose institutes.

On the one hand the private companies — Apple Valley Ranchos and Golden State Water companies — basically have a monopoly, even though any rate increases by private water companies in California must be approved by the California Public Utilities Commission.

On the other hand, government control would mean loss of tax income from the private companies and the local government could potentially hide increasing water costs within other department budgets rather than directly increasing water rates.

"Both situations (private or municipal ownership) are fraught with danger," Tom Firey, a policy analyst for the Cato Institute and managing editor of its Regulation Magazine, said. "It's kind of a pick your poison choice."

The biggest thing to worry about when government assumes control of a private utility is that operating expenses may increase and more money must be fed into the operation, he said.

"They may not be able to raise rates because of political consequences, but they may be hiding the costs," Firey said. "The government then becomes more willing to tell people how they may or may not use their water."

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Steven Frates, a senior fellow of the Rose Institute at Claremont McKenna College, said there are three major pitfalls to government control of a water utility. Private organizations pay taxes, but once the government takes over that tax revenue is gone.

Secondly, the government would take over hiring and firing and handling the benefits and the obligations for long term employees.

And thirdly governments have been known to shift various expenses from one enterprise fund to another to hide true costs, Frates said.

Another point to consider is that private companies set aside a fund for maintenance, expansions and improvements.

“Governments (on the other hand) have a tendency to spend every dime,” Frates said. After years of use the government could come back to the voters and say there is a need to increase rates or go out for a bond to rebuild the infrastructure, he said.

“Historically the track record of a private organization is much better,” Frates said.

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