UTILITY VALUATION REFORM
FREQUENTLY ASKED QUESTIONS

How many states have utility valuation reform?

So far, 15 states have adopted reforms that modernize the value-setting procedures used when municipal water and wastewater systems are sold. Of those states, 11 have passed reforms in the last three years with overwhelming bipartisan support.

What are the benefits of utility valuation reform?

Utility valuation reform legislation – sometimes called Fair Market Value (FMV) – establishes a clear process for independent appraisal experts to calculate a reasonable and fair value for water and wastewater systems, which ensures local governments and taxpayers get a fair deal for their assets.

Benefits Include:

- Enhanced focus on safe and reliable water infrastructure
- Help for troubled systems
- Professional operators with a singular focus
- Strong consumer protections through state government regulation
- Access to capital for municipal priorities

What is the difference between selling a system at fair market value versus selling it at book or appraised value?

Imagine if, when you went to sell your home, there was an archaic law in place that capped what price you could sell it for, allowing you only to get back the original building costs plus improvements, minus depreciation. As a result, instead of being able to sell the house for what the market said it was worth today, it would be sold at a price far below market value, called book value.

For municipal water or wastewater systems that have lacked capital investment in infrastructure over many years, book value could be nothing at all. These rules discourage system sales, leaving local governments that are facing urgent infrastructure challenges without viable options to fix their systems.

With valuation reform, appraisers have a clear process for calculating a reasonable and fair value for water and wastewater systems that accounts for what the system is actually worth in today's dollars. This ensures communities and taxpayers get a better deal for their assets.

Why do municipalities sell their systems?

No matter the community, large city or small town, maintaining and operating water infrastructure takes an enormous amount of expertise and financial resources. And whether a system requires significant investment to make up for improvements that have been put off for years or just needs ongoing investment to keep the system strong, the budgetary line for infrastructure is usually one of a municipalities' largest expenses.

Case study after case study have shown that selling a water or wastewater system to a regulated, private water company enables infrastructure issues to be addressed at a lower cost than under municipal ownership.

What impact does selling a system have on rates?

Opponents of utility valuation reform like to make claims about rates under private ownership but fail to acknowledge that rate increases are often necessary regardless of ownership in order to improve aging infrastructure and keep the system operating safely. Ignoring these critical infrastructure needs is not a solution, and rate increases to fund upgrades will be necessary no matter if the system is owned by a local government or a professional water company.

Activists ignore this fundamental reality when arguing against valuation reforms. Further, at least with private companies, unlike government-run systems, there's state oversight to make sure any related rate increases are necessary for safe drinking water and reliable infrastructure.

Is valuation reform only for distressed systems?

Not at all. Even municipalities that do not face urgent infrastructure challenges have found that voluntarily selling water and wastewater systems can be an effective way to offload risk, monetize assets and focus resources on other local needs. This may include paying down debt, funding pension obligations, making other infrastructure improvements, investing in economic development initiatives or providing other government services.

What has the experience been of communities that have sold their systems at fair market value?

Here are just a few examples:

CHELTENHAM, PA: System sale allows township to repair sewers without raising taxes

Like many communities across the country, Cheltenham Township has faced urgent sewer system challenges stemming from aging infrastructure. Despite millions of dollars in repair efforts that were driving the Township into debt, the system remained out of compliance, resulting in a moratorium on new sewer connections and fines by state agencies for sewer overflows. In 2019, state regulators approved the sale of the wastewater system to Aqua Pennsylvania. The sale enabled the Township to leverage private sector expertise to plan, permit and execute more than $50 million in infrastructure repairs without raising taxes on residents, all while still benefitting from over $50 million in proceeds.[1]

GEORGETOWN, IN: Consolidation enables infrastructure upgrades and lower water rates

With just 1,300 connections, the drinking water system in Georgetown, Indiana, struggled for years to keep costs low as the utility desperately needed significant infrastructure and operations upgrades. The aging system suffered from water main breaks that would leave the entire town without water for days. In 2017, Georgetown leaders decided to sell the system to Indiana American Water. After state regulators approved the sale, water rates in Georgetown fell by 40% for the average user even as the company implemented major infrastructure upgrades, illustrating the clear benefits of water system consolidation for customers.[2]

MANTENO, IL: Sewer acquisition leads to infrastructure upgrades and lower customer costs

In 2018, the Village of Manteno received $25 million in proceeds from the sale of its sewer system to Aqua Illinois – a deal that Mayor Tim Nugent summarized at the time as "turning an asset of concrete into an asset of cash that we can invest and use for other projects." In addition to the proceeds being made available for local priorities, Aqua's infrastructure improvements have helped support industrial, commercial, and residential growth in the area. Residents also benefit from the company's strong regional footprint in Kankakee County and collectively paid $800,000 less in sewer bills over the first five years of Aqua ownership.[3]

RANSOM, IL: System sale provides solution to drinking water quality crisis

Due to high levels of radium in the groundwater, for several years the Village of Ransom was forced to provide bottled water to residents. Given the small size of the system, the Village had no dedicated water system staff and no ability to raise the capital needed to build proper treatment facilities. Selling the system to Illinois American Water enabled Ransom to connect to the company's nearby Streator service area and gain access to safe, high-quality drinking water. Consolidating under Illinois American Water's larger service territory also meant lower rates for customers and the addition of dedicated, professional staff to care for the system.[4]

Sources

1. "Aqua America's Pennsylvania Subsidiary Completes Purchase of Cheltenham Township Wastewater System," BusinessWire, 12/19/19; "Cheltenham to hold special meeting to address sewer system," Montgomery News, 9/20/16
2. "Indiana American Water Acquires Georgetown Water System in Southern Indiana," BusinessWire, 11/17/17; "Georgetown moving forward with historic district improvements," News and Tribune, 2/19/21
3. "Aqua Illinois Completes Village of Manteno Wastewater System Acquisition," BusinessWire, 7/5/18; "Aqua Illinois completes $3.8 million infrastructure project at I-57 Bourbonnais Interchange," The Country Herald, 10/20/20
4. "Illinois Environmental Protection Agency Approves Village of Ransom's Drinking Water," BusinessWire, 4/3/17