



UTILITY VALUATION REFORMS DELIVER BENEFITS FOR INDIANA COMMUNITIES

Facing failing infrastructure, an aging workforce, and increasingly stringent water quality and environmental mandates, a growing number of local governments across Indiana are looking to turn operations of their water and wastewater utilities over to infrastructure professionals. The voluntary sale of water and wastewater systems to dedicated water professionals is a proven way for local governments to access the resources and expertise needed to address their growing utility challenges.



Passed and signed into law with overwhelming, bipartisan support in 2019, Indiana's utility valuation reforms updated the state's antiquated accounting rules that previously forced local governments wanting to sell water and sewer systems to do so at rock bottom prices.

Modernizing utility valuation rules in Indiana has allowed local governments and taxpayers to get a fair deal for the water and wastewater systems they choose to transfer to regulated, private sector water and wastewater professionals.

What are the benefits of utility valuation reforms?

- **SAFE AND RELIABLE INFRASTRUCTURE:** Water companies bring the operations expertise and infrastructure investments necessary to provide safe drinking water. The data is clear: systems run by water companies are significantly less likely to violate federal drinking water standards compared to systems run by local governments. This fact has been confirmed by every major study of water quality ever conducted in the United States.
- **HELP FOR TROUBLED SYSTEMS:** Utility valuation reforms have provided lifelines to troubled systems facing enforcement orders from state and federal regulators, allowing them to regain system compliance and retire utility debt. Without these reforms, these systems would likely be valued at next to nothing, severely limiting the benefits and potential of a sale and harming taxpayers and customers.
- **PROFESSIONAL OPERATORS WITH A SINGULAR FOCUS:** While local governments have numerous competing priorities on top of providing water and wastewater services, water and wastewater companies can singularly focus their professional expertise squarely on providing high-quality, safe and reliable service to communities.

- **STRONG CONSUMER PROTECTIONS:** Indiana's utility valuation rules require all system transactions to be reviewed and approved by state government experts at the Indiana Utility Regulatory Commission in a transparent, open process. The Commission can reject an unreasonable purchase price or any sale that is not in the best interest of the public.
- **ACCESS TO CAPITAL FOR LOCAL PRIORITIES:** Under the reforms, Indiana municipalities get a better deal for their assets and can put the resulting proceeds toward local priorities. Even municipalities that do not face urgent utility challenges have found voluntarily selling water and wastewater systems to be an effective way to offload utility 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 expanding local government services.

What is the difference between selling a system at fair market value versus selling it at book 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 and accurate recordkeeping 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, certified 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.

How have Indiana communities benefited from utility valuation reforms?

GEORGETOWN, INDIANA: 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 a professional water company. 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.

SHERIDAN, INDIANA: Acquisition solves sewer overflows and provides capital for other priorities. For years, the Town of Sheridan was plagued by wastewater system overflows and sewage discharge during wet weather. Facing repeated, heavy fines from the Environmental Protection Agency (EPA), the Town decided to seek help and sold the local water and wastewater systems to a professional water company in 2018. Local officials praised the deal, noting how it addressed the community's long-term water infrastructure needs and paid off existing utility debt while keeping rates lower than they would have been if the repairs were made under municipal ownership. The Town also used proceeds from the sale to establish a retirement fund for City employees. Within three years of the sale closing, the private, regulated water company completed a \$10 million upgrade to the Sheridan wastewater treatment facility that tripled peak capacity to address overflow challenges during wet weather. The company also upgraded the Town's drinking water infrastructure, investing \$2 million to remove lead service lines, upgrade water treatment facilities and replace a major groundwater pump.

CLAYPOOL, INDIANA: Small system consolidation leads to lower rates, greater efficiencies. Facing increasing compliance mandates and infrastructure demands, the Town of Claypool no longer wanted to run its own water system. “The business of providing water is getting more complicated every day, especially for smaller systems like ours,” said Claypool Town Council President Benny Stage in spring 2023. By consolidating their small system of just 150 connections in northern Indiana into a professional water company’s larger regional footprint, Town officials say they will be able to facilitate needed infrastructure improvements at a lower cost to residents while freeing up time to focus on other community needs.

CHARLESTOWN, INDIANA: Water company investments address longstanding groundwater quality issues. When Charlestown decided to sell its water system to a professional water company in 2019, the rationale was clear. As Mayor Bob Hall said at the time, “our community was facing tremendous capital costs to address water quality and local infrastructure needs. This acquisition will help us to address these concerns at a lower overall cost than we would otherwise be able to do and also provide funds to help us address other pressing priorities in our community.” Within four years of the acquisition closing, the regulated, private water company was able to address longstanding groundwater iron and manganese challenges with a new \$16 million treatment facility that significantly improves drinking water quality, system reliability, and fire protection capacities for the southern Indiana community. The facility came on top of \$11 million the company had previously invested in other improvements to the system.

Sources

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