



## **NO, ACT 12 HASN'T COST CUSTOMERS \$85 MILLION: HERE'S JUST HOW WRONG THAT NUMBER IS**

One claim that has been tossed around at every turn of this session's Act 12 debate is that water and wastewater acquisitions made under fair market valuations are costing private utility customers \$85 million per year in Pennsylvania.

One problem: it's dead wrong. Here's how ...

### **1) IGNORES HOW PRE-ACQUISITION RATES DID NOT COVER FULL COST OF SERVICE**

Blindly comparing the "government, pre-acquisition" rates to the "private, post-acquisition" rates ignores the fact that government utilities often run at an operating loss and are subsidized by non-rate revenues like general funds or property taxes.

For the \$85 million difference in rates to be "directly due to" Act 12 as claimed, the government systems acquired would have to have been fully funding their cost of service through customer rates. But public financial data shows that is definitely not the case.

For example, New Garden Township sewer system reported a 16% operating loss over the five years leading to acquisition:

	2019	2018	2017	2016	2015	TOTALS
<b>NEW GARDEN SEWER REVENUE</b>	\$2,448,600	\$2,269,542	\$2,223,628	\$2,484,697	\$2,169,771	<b>\$11,596,238</b>
<b>NEW GARDEN SEWER EXPENSES</b>	\$2,533,883	\$2,742,811	\$2,808,956	\$3,474,436	\$2,280,393	<b>\$13,840,479</b>
<b>NET OPERATING INCOME / LOSS</b>	<b>-\$85,283</b>	<b>-\$473,269</b>	<b>-\$585,328</b>	<b>-\$989,739</b>	<b>-\$110,622</b>	<b>-\$2,244,241</b>

Similarly, Valley Township sewer system rates fell over 11% short of the cost of service over the five years before acquisition:

	2021	2020	2019	2018	2017	TOTALS
<b>VALLEY SEWER REVENUE</b>	\$3,063,234	\$2,722,277	\$2,743,956	\$2,795,379	\$2,773,003	<b>\$14,097,850</b>
<b>VALLEY SEWER EXPENSES</b>	\$3,545,817	\$3,331,677	\$3,149,461	\$3,445,038	\$2,458,828	<b>\$15,930,821</b>
<b>NET OPERATING INCOME / LOSS</b>	<b>-\$482,583</b>	<b>-\$609,400</b>	<b>-\$405,504</b>	<b>-\$649,659</b>	<b>\$314,175</b>	<b>-\$1,832,971</b>

The spurious \$85 million claim ignores these dynamics. Had the systems acquired under Act 12 remained under government ownership and had their operations been fully funded through rates, customer bills would have increased dramatically. Some of the \$85 million rate difference blamed on Act 12 is actually caused by the practice of hiding what communities are paying for water and wastewater services in municipal taxes or other local government fees.

## 2) IGNORES URGENT NEED FOR INFRASTRUCTURE INVESTMENTS

The claim disregards another key factor: Government systems are often acquired under Act 12 because they have urgent infrastructure needs.

Several Act 12 systems spent very little on infrastructure investments in the years leading up to acquisition. For example, on average, New Garden Township dedicated less than 1% of sewer revenues to capital expenditures before being acquired under Act 12:

	2019	2018	2017	2016	2015	TOTALS
<b>NEW GARDEN CAPEX (SEWER)</b>	\$9,668	\$13,401	\$24,521	\$20,674	\$0	\$68,264
<b>NEW GARDEN REVENUES (SEWER)</b>	\$2,448,600	\$2,269,542	\$2,223,628	\$2,484,697	\$2,169,771	\$11,596,238
<b>%% CAPEX</b>	<b>0.39%</b>	<b>0.59%</b>	<b>1.10%</b>	<b>0.83%</b>	<b>0.00%</b>	<b>0.59%</b>

The same can be said for the East Norriton Township and Kane Borough sewer systems:

	2020	2019	2018	2017	2016	TOTALS
<b>E NORRITON CAPEX (SEWER)</b>	\$0	\$0	\$14,824	\$44,830	\$17,500	\$77,154
<b>E NORRITON REVENUES (SEWER)</b>	\$1,508,675	\$3,127,868	\$3,245,377	\$3,201,184	\$3,254,005	\$14,337,109
<b>%% CAPEX</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.46%</b>	<b>1.40%</b>	<b>0.54%</b>	<b>0.54%</b>

	2020	2019	2018	2017	2016	TOTALS
<b>KANE CAPEX (SEWER)</b>	\$0	\$3,227	\$19,986	\$6,114	\$24,797	\$54,124
<b>KANE REVENUES (SEWER)</b>	\$1,202,105	\$1,430,958	\$1,426,379	\$1,440,478	\$1,431,778	\$6,931,698
<b>%% CAPEX</b>	<b>0.00%</b>	<b>0.23%</b>	<b>1.40%</b>	<b>0.42%</b>	<b>1.73%</b>	<b>0.78%</b>

Meanwhile, Steelton Borough reported spending a grand total of exactly \$0 on its water infrastructure over the five years before that system was acquired under Act 12.

In contrast, Pennsylvania's regulated, private water companies collectively invest more than \$800 million annually in community water systems to improve water quality, protect against system disruptions, and bring newly acquired systems back into regulatory compliance.

The \$85 million claim disregards this need for capital expenditures on infrastructure. Had the systems in question made these necessary and urgent investments under government ownership, their rates would have increased dramatically. A significant portion of the \$85 million attributed to Act 12 acquisition pricing is actually driven by increased capital spending to protect public health and the environment. This is spending that needs to occur no matter who owns these systems.