

SIX WAYS ITPI GETS IT COMPLETELY WRONG

In the Public Interest (ITPI) published “Water Wars in Pennsylvania: How Corporations Play the Long Game,” which made many false and misleading claims about regulated, private water companies and the benefits that have come with Pennsylvania’s Act 12.

Trying to make regulated, private water companies into villains is not a new tactic of those opposed to the proven solutions these companies offer. But in their quest to do so, groups like ITPI completely misconstrue the rationale behind state water policies in Pennsylvania like Act 12, which exists to help communities address urgent water and wastewater infrastructure needs often exacerbated by fiscal challenges.

Communities across Pennsylvania have benefited from Act 12. Without this reform, municipalities that want to sell their water or wastewater systems would be forced to do so at rock-bottom “book value” prices. Act 12 ensures communities get a fair price for their assets. Taking solutions like Act 12 off the table, as the report suggests, would leave communities without options for addressing urgent infrastructure and fiscal challenges.

ITPI’s Pants on Fire #1: Private water in Pennsylvania is more expensive than public water.

Reality: ITPI fails to consider how private rates increase to fund urgent infrastructure needs and ensure customers receive safe, high-quality drinking water. Analyses of utility capital expenditures (CAPEX) show that, on a per customer basis, regulated, private water companies in Pennsylvania are often investing more than twice as much to protect water quality and infrastructure reliability as their government-run peers. These investments matter: Environmental Protection Agency (EPA) data shows that systems run by regulated, private water companies in Pennsylvania are far less likely to have a water quality violation than government-run systems.

While Pennsylvania’s private, regulated utilities have regularly invested more than \$150 per customer per year in infrastructure repairs and replacements, the three government systems cited in the ITPI report are investing far less.

- Lehigh spent an average of \$21.47 per customer per year
- Mifflin spent an average of \$68.50 per customer per year
- North Penn spent an average of \$92 per customer per year

The investment by regulated, private water companies leads to safer water and more reliable infrastructure – a win, win for everyone.

ITPI's Pants on Fire #2: Private water companies do not invest in important infrastructure projects.

Reality: Pennsylvania's regulated, private water companies strategically 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 result: these systems are 37.4 percent less likely to have a health-based Safe Drinking Water Act (SDWA) violation than government-run systems.

ITPI's Pants on Fire #3: Act 12 allows private companies to offer inflated prices for well-run, financially solvent municipal systems and then pass on the purchase cost to consumers.

Reality: Without Act 12, communities that want to sell their water or wastewater systems would be forced to do so at rock-bottom "book value" prices. For distressed systems that have lacked investment, "book value" has been as low as \$0. Act 12 simply ensures communities get a fair deal for their assets when they wish to sell to a regulated, private operator.

ITPI's Pants on Fire #4: Act 12 is only used to acquire healthy systems.

Reality: There are examples from across the Commonwealth of systems in distress that have benefited from Act 12. This list includes:

SHENANDOAH: Before acquisition, 60% of the treated water was leaking from the system before it ever reached customers and hydrants were freezing in wintertime and were installed on the incorrect diameter pipe that would have rendered them insufficient for firefighting.

CHELTENHAM: Before acquisition, the collection system was in a state of disrepair and experienced significant raw sewage overflows that contaminated Tookany Creek. The township failed over many years to correct the problem.

NEW GARDEN: Before acquisition, the system's wastewater lagoons were nearly overflowing and critical equipment was in an imminent threat of failure, including portable generators at pump stations. Without backup power, raw sewage would have spilled into surrounding neighborhoods, streets and even homes during a power failure.

McKEESPORT: Before acquisition, the sewer system was illegally discharging raw sewage from dozens of homes directly into abandoned mines.

EXETER: Before acquisition, the municipal wastewater plant spilled four million gallons of untreated sewage into the Schuylkill River.

ITPI's Pants on Fire #5: Act 12 has cost customers \$85 million.

Reality: The \$85 million claim disregards this need for capital expenditures on infrastructure. A significant portion of the \$85 million attributed to Act 12 acquisition pricing is 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. Had the systems in question made these necessary and urgent investments under government ownership, their rates would have increased dramatically.

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 not the case. For example, in New Garden in the five years leading up to the acquisition, the Township reported a 16% operating loss, while in Valley Township, sewer rates fell over 11% short of the cost of service over the five years before acquisition. These hidden costs mean customers were paying for the system through both their utility bill and their tax bill.

ITPI's Pants on Fire #6: Communities have not benefited from Act 12.

Reality: Significant turnaround stories from communities across the Commonwealth paint a clear picture about the benefits of Act 12, including safer and more reliable systems, access to operational expertise, enhanced environmental protections, and a stronger economic future.

McKEESPORT: The sale of the local wastewater system allowed McKeesport to pay off debt, fund pensions, and avoid municipal bankruptcy – all while gaining an additional \$40 million in proceeds to allocate toward other local priorities like economic revitalization. In addition, McKeesport gained a professional operator and tens of millions of dollars in badly needed infrastructure investments for its wastewater system that the mayor said would have been very difficult to fund and execute without a sale.

EXETER: The sale of the municipal wastewater system enabled Exeter Township to avoid a 32.6% property tax increase; pay off substantial debts; pay for future capital projects, including equipment replacement, township building relocation, and storm sewer improvements; improve the Township's credit rating; and still leave \$48 million in proceeds in the bank. Local officials confirmed that the rate increases customers experienced to fund system upgrades would have been much higher had the township retained the system and made the necessary improvements without professional expertise.

NEW GARDEN: Facing aging infrastructure and major capital needs to urgently expand capacity and avoid major releases of raw sewage into local waterways, New Garden Township transferred its wastewater system to a regulated, private water company in 2019. While customer rates increased to fund necessary improvements in the system, New Garden officials stated that rates would likely be higher if the system were still run by the government and sale proceeds were not available to help fund improvements.