

UTILITY VALUATION REFORMS ENCOURAGE WATER SYSTEM CONSOLIDATION IN TEXAS

Facing failing infrastructure, rising costs, and increasingly stringent water quality and environmental compliance mandates, a growing number of municipalities, developers, and other utility owners across Texas no longer want to operate their water and wastewater systems.

The voluntary sale of systems to dedicated water professionals is a proven way to address utility challenges. However, antiquated accounting rules in some states discourage utility sales.

Texas' utility valuation reform legislation (HB 3542) passed with unanimous, bipartisan support in 2019, modernizing the state's utility valuation laws. By allowing utilities to be sold at their average appraised fair market value, instead of at a much lower depreciated value, Texas is encouraging the consolidation of smaller, often distressed water and wastewater systems with larger utilities. This enables critical infrastructure investments to be made, increases economies of scale, and improves service for customers.

"We are grateful to Rep. Dade Phelan for sponsoring legislation that streamlines the sales process for retail public utilities, which, among other benefits, will allow distressed utilities to move into more able hands and maintain service to customers."

*John Paul Urban, Executive Director of the
Public Utility Commission of Texas*

What are the benefits of fair market value consolidation with a private, regulated water company?

Safe and reliable water infrastructure

Regulated, private water companies have an unmatched record of providing superior water quality to customers. Multiple studies of the U.S. Environmental Protection Agency (EPA) data show that systems owned and operated by water companies are significantly less likely to violate federal water quality standards compared to systems owned and operated by local governments or developers.

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.

Professional operators with a singular focus

While local governments have numerous competing priorities on top of providing water and wastewater services, regulated, private water companies can focus their professional expertise squarely on providing high-quality, safe and reliable service to communities.

Strong consumer protections

Utility valuation laws require all acquisitions to be reviewed and approved by state regulators in a transparent, open process. The Public Utility Commission of Texas can reject an unreasonable purchase price or any sale that is not in the best interest of customers.

Access to capital for municipal priorities

With utility valuation reforms, local governments can get a better deal for their assets and 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 are some examples of successful fair market value consolidation in Texas?

1. [Texas Water](#), a subsidiary of H2O America, acquired KT Water Development in August 2023 and consolidated the 570 connections from KT Water's Rockwall Ranch Subdivision into Texas Water's larger regional utility operation that already served more than 26,000 connections. This enabled substantial infrastructure investments and provided the fast-growing Comal County region with the water supply and operations expertise needed to support future population growth.
2. In recent years, [CSWR-Texas, a subsidiary of Central States Water Resources \(CSWR\)](#), has acquired multiple water systems struggling with pre-existing water quality and environmental compliance deficiencies. For example, facilities acquired by CSWR-Texas in Ellis County had been cited for violations of the drinking water systems that could impact human health, as well as violations for water testing and inadequate security at critical facilities. Other systems carried a history of chronic violations for failing to properly inspect and maintain infrastructure, resulting in ongoing water quality issues. Consolidating these systems under CSWR's regional operations has allowed critical infrastructure upgrades and operational improvements to be made, resolving longstanding violations and restoring reliable service to customers.
3. In August 2021, The Commons Water Supply's 992-connection drinking water system was acquired by [Aqua Texas](#), a subsidiary of Essential Utilities that serves 200,000 people across 53 counties in the state. Essential Chairman and CEO Christopher Franklin said The Commons agreement illustrated the benefits of the fair market value law in Texas: "Aqua can benefit other communities like The Commons by leveraging our expertise in compliance, large-scale purchasing power and other efficiencies that can be realized with a larger, regional operation."

SOURCES: Texas House Journal, HB 3542, 2 May 2019; Texas Senate Journal, HB 3542, 22 May 2019; Texas House Research Organization Bill Digest, 29 April 2019; Texas Legislative Study Group Floor Report, 29 April 2019; Public Utility Commission of Texas, "Public Utility Commission Issues Call for Appraisers" 18 December 2019; Allaire, Wu and Lall in the Proceedings of the National Academy of Sciences, "National Trends in Drinking Water Quality Violations" February 2018