



PMAA REGION ONE

Including Municipal Authorities in

Bucks – Chester – Delaware – Montgomery & Philadelphia Counties

To: Bucks County Municipal and Community Leaders

From: Anthony J. Bellitto Jr., PE. – Past President, Pennsylvania PMAA
Michael K. Sullivan, Current PMAA Region 1 Director
Robert C. Bender, Past PMAA Region 1 Director

Re: ***The Real Impacts of Privatizing Public Water and Sewer Systems***

Dear Friends,

We do not favor the privatization of publicly owned water and sewer systems.

And here is why:

Municipal Authorities were first created by the Pennsylvania Legislature in 1935 primarily to facilitate the financing and public ownership of various public utilities and operations necessary to provide necessary public services - such as water and sewer systems, airports, and similar functions of public benefit. The law has been amended from time to time over the years to address changing needs. However, Pennsylvania Municipal Authorities continue to operate as a not-for-profit entity for the sole purpose of providing essential public services. These Authorities operate with long-term stability, typically without influences from political interests or corporate influences. For nearly 100 years, the system has worked very well.

But that has recently changed – and not for the better!

Several years ago, the Pennsylvania Legislature approved what was then thought to be an innocuous bill, known as Act 12.

Simply stated, Act 12, is a 2016 state law that allows investor-owned utilities to pay a higher "fair-market" value for municipal water and wastewater systems *and recover the entire sale price from their customers through higher rates.*

Let us explain.

Before Act 12, local water and sewer customers were protected from large corporations overbidding for public water and sewer systems, as any sale of these systems then had to be at an "*appraised value*." This required valuation protected the public by providing a level playing field between publicly owned *non-profits systems* vs. privately-owned for-profit water and sewer entities, as the appraised value is then applied to both profit-making corporations and public non-profits.

However, since the enactment of Act 12, the rules of the game have dramatically changed. Currently, publicly owned water and sewer systems can be sold without customers' approval - at what is called a "*fair market value*."

And who sets this value? - *The highest bidder!*

What does this mean to your community.?

It means that several for-profit Corporations - often called the "Profiteers" - have discovered that private ownership of community water and sewer systems is very lucrative, providing never-ending profits for the Corporation and their investors.

How is this possible?

The answer is simple. Under the new law, the profiteers can bid up the purchase price for any system they are interested in acquiring, to any level they wish, regardless of the appraised value. These corporations often pay two, three, or even four times over the actual appraised value of a system, thereby cutting any competing non-profit Municipal Authority out of the running.

Although bidding up the price might seem to be counter-intuitive to their corporate interests and profit-making goals, *it is quite the opposite*.

What happens is that under current law, after the sale, these Corporations are "entitled" to increase their customer rates sufficiently to recover 100% of their purchase price investment, "*plus a reasonable return on the investment*." The same rules apply to any subsequent improvements they make to the system.

The incredible result is that the more they pay for the system, *the higher they can raise customer rates - and the more money they make*.

They do not spend anything to acquire the systems - the customers ultimately pay it!

Even more incredible is that once they have gotten all of their money back, *plus profits*, the law does not require that they reduce the increased rates. The customers, both residential and business, pay the higher rates in perpetuity!

Are there other negative impacts on residents, taxpayers, and businesses?

Unfortunately, YES, and here are only a few:

1. Since private water and sewer suppliers operate under PUC review in Harrisburg, if there is a consumer issue to be resolved, instead of visiting a local municipal or Authority office, a consumer will often have to file a formal complaint with the PUC, hire an Attorney, and then wait many months before traveling to a PUC hearing for redress.
2. Privately owned water and sewer systems typically have rates (or tariffs) apply on a regional basis. This means that after they recover all costs of acquiring a new system – *they can raise rates again*. This is because the owners of a newly acquired system may impose new rate increases after they purchase other systems in the same rate zone – even though the customers of the previously acquired system receive no direct benefit from the new acquisition.
3. Lastly, when a local system is sold to a for-profit entity, most times, the cash infusion is temporary; the monies will be spent and not returned to the water and sewer customers – *who actually paid for the systems*.
4. What do you mean that the customers paid for the system and infrastructure?

When developers build a new neighborhood, they must construct the water and sewer pipes in the streets, install the lines running to the home or business, and then pay significant "tapping" or "capacity fees" for every connection. These expenses can quickly reach thousands of dollars per dwelling unit. These costs are included as part of the price of the home or business and often included in the mortgage, continuing until paid in full. Meanwhile, the customer pays for ongoing system maintenance with every monthly or quarterly payment. In the end, the customers have actually paid for the community water or sewer systems being sold to the private companies!

So, what is the impact of a public water or sewer system being sold to the profiteers?

1. The customer pays for the original installations and capacity in their mortgage.
2. The customer then pays for the system *again* as the private entities recover all of their acquisition expenses – plus profits, by raising customer rates.
3. However, the pain does not stop there, since even after paying for the infrastructure twice, the increased rates imposed upon the customers continue and typically will rise every few years – after all, *the money-making machine runs in perpetuity!*

4. Meanwhile, the funds received by the governmental entity selling your systems will eventually be spent – resulting in unfunded programs and employees hired with the temporary cash. This will require another tax increase to fill the void. The bottom line is that the seller grabs the money, and the customer is left behind to pay both higher water and sewer bills, and higher taxes.

But don't the private companies do a better job in operating the systems?

In a very few isolated cases that they like to tout – *maybe*. However, these situations are rare and typically include small, underfunded water and sewer systems located in rural areas. What the Corporations do not like to reveal is the fact that all Pennsylvania water and sewer systems operate under the same permitting, testing, and reporting guidelines. The standards for providing clean and safe drinking water and discharging treated effluent to the streams are *identical*.

There is no public health, safety, or environmental benefit from private ownership.

The truth is that publicly owned systems meet or exceed all governmental standards, provide service at lower rates, and typically employ residents of the community. These benefits are lost when public systems are sold to profit-making corporations.

We believe that publicly owned water and sewer systems are much too important to be bought and sold like common commodities - or to be controlled by Wall Street interests and never-ending corporate profits.

We believe that instead of sacrificing public ownership and local control, these systems should be held and operated in a perpetual public trust – to be protected and handed down to our children and their children.

For additional information, you may wish to contact the PMAA at the address and phone below or visit the Food and Water Watch website at www.foodandwaterwatch.org Look for their publications on *Privatization of Public Water and Sewer Systems*.

Do not be fooled.

Corporate ownership of our water and sewer systems and control of our local aquifers and future water supplies will provide nothing more than ever-increasing rates, fees, and long-term debt for residents and taxpayers.

Your local PMAA representatives are available to meet with your municipal officials and community leaders and to provide a presentation in your community if desired.

Please feel free to contact any of the undersigned, or you may reach out to Michael K. Sullivan, PMAA Region 1 Director, at 215-343-3584 for further information

Respectfully,

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