



PENNSYLVANIA STATE ASSOCIATION OF BOROUGHES

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Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, Pennsylvania 17120

Docket Number: M-2016-2543193

Commissioners,

The Pennsylvania State Association of Boroughs (PSAB) is pleased to present comments on the recently issued *Tentative Supplemental Implementation Order on the Valuation of Acquired Municipal Water & Wastewater Systems under Act 12 of 2016* (M-2016-2543193).

PSAB was chartered in 1911 and is a non-profit, non-partisan incorporated association advocating for the interests of more than 950 rural and urban boroughs and nearly 16,000 elected and appointed borough officials. PSAB is charged by the Borough Code, 8 Pa. C.S.A. §701, with the purpose of advancing the interests of boroughs. PSAB advocates borough interests at state and federal levels with respect to matters of public concern. PSAB is dedicated to improving local government, providing research, education, training, and other programs to assist municipal officials in fulfilling their duties and responsibilities as well as seeking advancement of community development and economic growth.

Pennsylvania's boroughs take great pride in providing quality municipal services to our citizens in an efficient and cost-effective manner. Each day borough officials across the state rise to the many challenges our communities face. One such challenge is providing clean water and sewer treatment services at reasonable rates with mounting federal and state mandates.

Over the past several years, boroughs have been evaluating the viability of their water and wastewater systems. Entertaining offers to sell water and wastewater systems have become more prevalent for a variety of reasons. PSAB supports allowing local governments the full ability to determine what works best for their community. Borough officials are elected to make informed and necessary decisions for their constituents. That's local democracy at work.

Our Commonwealth's water infrastructure is aging and will require billions in investment in the coming years to not only maintain but also modernize. The American Society of Civil Engineers' 2022 Report Card estimated Pennsylvania will require \$18.6 billion in investment over the next 10 years to improve the state's water and wastewater infrastructure. Unfortunately, many local governments' budgets are stretched thin and without a lifeline from the federal or state governments, more local governments will be deciding whether to sell their municipal water system.

When Act 12 of 2016 was enacted, local governments began receiving a market-based, fair market value for their systems. Fair market value gives our communities a more equitable way to sell municipal assets while ensuring the community is properly compensated. We support using this method of valuation instead of the outdated depreciated original cost method, which is not an equitable valuation method. Moreover, depreciated original cost isn't defined in statute whereas fair market value has proper statutory definition.

Many of the approved acquisitions under Section 1329 allowed the selling community to make critical investments in their communities, such as eliminating municipal debt, investing in capital projects, funding their pension systems, reducing taxes, or avoiding tax increases, providing improved municipal services, and funding storm water improvements.

Act 12 allowed the Borough of Steelton, Dauphin County, to receive a fair and equitable price for their system in 2020. The sale to Pennsylvania-American Water Company for \$21.750 million in cash and \$35.7 million in committed capital improvements was a major benefit for their community. As a result of the transaction, the Borough was able to pay off all existing General and Sewer Fund debt, making the Borough debt free. Additionally, the Borough eliminated their Debt Service Tax in 2020, saving homeowners on their property taxes and, with their sewer fund debt eliminated, the Borough began restructuring sewer rates with the goal of lowering them. As you can see, funding goes right back into the community to solve real issues facing our residents.

The proposed tentative supplemental implementation order has a few items we support incorporating into the Act 12 process.

Public Hearings - As a full supporter of local democracy, we support the inclusion of public meetings to the process. In fact, many of our members are already doing this when these issues are considered by their community. The only suggestion we would make is to not call them "public hearings" due to the legal responsibilities that could bring added expenses such as stenographers, etc. We suggest using the term public meetings.

Rate Impact Notice – We believe that transparency and accurate information is vital to this process. As such, we can support the notice to current ratepayers. While this is an additional expense, it will help to provide needed information to the current ratepayers.

Default Weights for Appraisals – We do not have a problem with mandating the utility valuation experts use cost, market, and income approaches for valuation evenly. However, we would request that applicants should be able to seek Commission approval to deviate from the default weights for good cause. We believe such good cause should include distressed systems.

Reasonableness Review Ratio – We are opposed to the implementation of the Reasonableness Review Ratio (RRR) as it will lead to undermining the fair market valuation found in Act 12. Additionally, the RRR would provide the Commission with a guideline to reject a locally negotiated sale price based on the fair market valuation appraisal process. We understand that it is not a mandatory factor, however, we are concerned that the RRR will erode the local decision-making process and reduce the benefits received by selling communities.

PSAB continues to support the value of publicly run municipal water and sewer systems. These systems are one of the core municipal services our residents have come to rely on. However, given

the current environment with ever increasing mandates, such as PFAS, water line inventory, and budgetary constraints, the Section 1329 application process should continue as a viable option to enable municipalities, if they so choose, to sell their systems at a price that is fair and equitable.

Thank you for the opportunity to provide our perspectives on the Tentative Supplemental Implementation Order on the Valuation of Acquired Municipal Water & Wastewater Systems. We look forward to continuing the process of this issue.

Sincerely,

A handwritten signature in dark ink, reading "Ronald J. Grutza". The signature is written in a cursive style with a large initial 'R' and a distinct 'G'.

Ronald J. Grutza
Senior Director of Government Affairs