Debate Rages Over The Value Of Acquired Water Systems In Kentucky

By Peter Chawaga

There will always be some debate between public officials and privately-run water and wastewater systems. In Kentucky, this has manifested into controversy over a new bill.

The mayor of Lexington has publicly denounced state Senate Bill 163, which would allow private water and wastewater companies to recalculate the value of water systems they want to acquire. This could potentially allow them to overvalue these systems and justify charging higher rates to customers.

“This legislation is bad for Lexington ... bad for citizens; bad for our largest employer, the University of Kentucky; bad for our economy,” Mayor Linda Gorton wrote in a statement on the bill, per the Herald-Leader.

Specifically, the bill would allow water and wastewater utilities to determine the value of a system they acquire by whichever is less between the cost of acquisition or the “fair market value.” Fair market value would be determined by appraisals from the purchasing utility, the acquired utility, and a third appraiser picked by those two.

“States that allow water and sewer utilities to use fair market value typically have steeper rate increases, [Tom FitzGerald of the Kentucky Resources Council] warned,” according to the Herald-Leader.
Gorton also pointed out that Kentucky American Water, one of the state’s investor-owned water and wastewater companies, has more than doubled its residential rates, increasing them five times, since 2007. She said that it currently operates at least one water plant that has excess capacity.

Meanwhile, Kentucky American Water argues that the new bill will enable it to better serve rural areas of the state.

“As a regional utility providing drinking water service to customers in portions of 13 counties and wastewater services in portions of four, we have seen first-hand how regionalization of water systems provides economies of scale that can help contain rates for all customers while also enhancing service,” said Susan Lancho, a spokesperson for Kentucky American Water, per the Herald-Leader.

At the time of writing, it’s unclear how or when Senate Bill 163 will move forward.

To read more about the finances behind water and wastewater services, visit Water Online’s Funding Solutions Center.

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