
OLR Bill Analysis

HB 5346

AN ACT CONCERNING THE SALE OF MUNICIPAL WATER SUPPLY AND WASTEWATER UTILITY ASSETS.

SUMMARY

This bill establishes a process through which a water company regulated by the Public Utilities Regulatory Authority (PURA) can buy a municipally owned wastewater or water supply system and have the lesser of either the sale price or the system's average fair market value included in its rate base (i.e., an amount it can recover through its rates). Under current practice, the water company would generally only be able to include the municipal system's "net book value" (original costs, less depreciation), in its rate base.

Under the bill, a "municipality" is any unit of government, including a town, city, borough, consolidated town and city, consolidated town and borough, district taxing district, public agency or authority established by the general statutes, a special act or a local law, ordinance or charter, or any other subdivision of government.

EFFECTIVE DATE: October 1, 2018

DETERMINING FAIR MARKET VALUE

The bill allows a municipality to negotiate with a PURA-regulated water company to sell its municipal wastewater or water supply system to the company. Once the parties have negotiated and agreed upon a sale price they must determine the system's average fair market value.

To do so, the bill requires the municipality and company to (1) jointly engage a licensed engineer to assess the system's tangible assets and (2) each engage a utility valuation expert. Under the bill, a utility valuation expert is an experienced appraiser. Each valuation expert, using the engineer's assessment, must then appraise the system and

determine its fair market value under the Uniform Standards of Professional Appraisal Practice (see BACKGROUND). Each valuation expert must provide his or her appraisal to the municipality and water company within 90 days after he or she was engaged for the appraisal.

Once the appraisals are done, the bill requires the municipality and water company to jointly submit an application for approval for the sale to PURA. PURA must approve or deny the application within six months after the parties file it.

RATES

If PURA approves the application, it must determine the ratemaking rate base (the system's dollar value) as the lesser of (1) the negotiated sale price or (2) the system's average fair market value. Under the bill, the average fair market value is the numerical average of the fair market values produced by the two valuation experts' appraisals.

The bill also requires PURA to:

1. approve rates and any applicable surcharges for the municipal system's customers;
2. allow the water company to include the ratemaking rate base in its rate base for ratemaking purposes at its next general rate case (i.e., allow it to recover the municipal system's dollar value through its rates); and
3. allow the company to include in its rate base the costs associated with acquiring the municipal system, including the (a) transaction and closing costs and (b) fees paid to the engineer and valuation expert.

Under the bill, appraisal fees that do not exceed 5% of the system's fair market value must be presumed to be reasonable.

The bill specifies that it does not supersede any provisions of the general statutes or municipal charters regarding the sale or disposition

of municipal assets, or any provisions of the general statutes regarding water company acquisitions.

BACKGROUND

Uniform Standards of Professional Appraisal Practice

The Uniform Standards of Professional Appraisal Practice contains standards for all types of appraisal services, including real estate, personal property, business, and mass appraisal. It is updated every two years and state-licensed and state-certified appraisers involved in federally-related real estate transactions must comply with it.

COMMITTEE ACTION

Energy and Technology Committee

Joint Favorable

Yea 21 Nay 4 (03/29/2018)