Transferring Utility Profits to a Municipality's General Fund Increases the Risk of Undercapitalization of Water Assets

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Florida TaxWatch

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Lt. Gov. Jeff Kottkamp
President & Chief Executive Officer

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Dear Fellow Taxpayer,

While all natural water systems in Florida are connected, all drinking and wastewater systems are not. Floridians receive drinking water and wastewater service through several thousand publicly and privately owned drinking water and wastewater treatment systems and facilities throughout the state. More importantly, many of these systems and facilities are more than 50 years old and were not designed or built to handle the current water supply, capacity, and treatment demands. These aged systems and infrastructure require continued investment and replacement to maintain established levels of service and to meet future needs.

A common practice among publicly owned water and wastewater utilities is the transfer of a portion of their net revenues to a local government's General Fund (a practice known as "sweeping") to fund other programs and services. This practice can result in the undercapitalization of water assets, as money that would otherwise be used to fund operations and maintenance, and capacity improvements, are diverted to other uses.

One needs only to look at cities like Jackson, Mississippi, to better understand the consequences of undercapitalizing water and wastewater infrastructure. For years, Jackson has struggled with water system outages, accidents and equipment failure, problems city officials have blamed on crumbling infrastructure. Extensive flooding overwhelmed Jackson's fragile water system, leaving thousands of residents without safe drinking water.

Florida TaxWatch undertakes this independent analysis to analyze the current state of Florida's publicly owned water and wastewater treatment utilities, including a review of the practice of transferring a portion of utility net revenues to a local government's General Fund, instead of reinvesting it in the system or reducing customer rates, and whether this practice results in the undercapitalization of critical water and wastewater treatment infrastructure. Florida TaxWatch is proud to present this analysis, and we look forward to discussing the findings and recommendations with policymakers during the 2026 legislative session and beyond.

Respectfully yours,

The Honorable Jeff Kottkamp, Esq.

President & CEO,

Florida TaxWatch

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Executive Summary

Setting water utility rates that incorporate the recovery of the costs associated with standard operating expenses and debt obligations is essential to ensuring the short-term and longer-term financial stability of the utility. Once these costs are covered, many publicly owned utilities make transfers to the General Fund (a practice known as "sweeping") ostensibly to help pay for governmental services that do not generate revenue (e.g., roadway maintenance, public safety, etc.) and to help keep property taxes lower. Keeping property taxes low often means higher municipal utility rates to balance the general budget, a habitual practice that burdens utility customers with cross-subsidies and normalizes underinvestment in infrastructure.

These utility fund transfers function like a tax in that revenue generated by a city-owned utility is used to support general government services instead of being reinvested into the utility. Local governments that transfer, or sweep, revenues from publicly owned water utilities to the General Fund to finance unrelated programs and operations are more likely to need state funding or issue additional debt, and in larger amounts, to offset or supplement the financial burden of expenditures on water infrastructure.

This is not only unfair, but it also reduces the total amount of state funding and financial assistance available to other utilities and burdens current and future rate payers with debt — further increasing the likelihood of other publicly owned water utilities' underinvestment and deferred maintenance of water infrastructure due to insufficient funding.

The revenue sweeps, coupled with reductions in federal funds for water infrastructure projects and in conjunction with the growing number of local government special project funding requests are clear indicators of the risks of undercapitalization of water infrastructure.

Florida law permits a municipality operating a water or sewer utility outside its corporate boundaries to generate additional revenue by selling utility services to customers outside their municipal boundaries. Municipalities are permitted to impose higher rates, fees, and charges on customers receiving service outside of its corporate boundaries as compared to the rates, fees, and charges imposed on consumers within its boundaries. This is a regressive practice in that it creates a larger burden on lower-income customers than on middle- or higher-income customers.

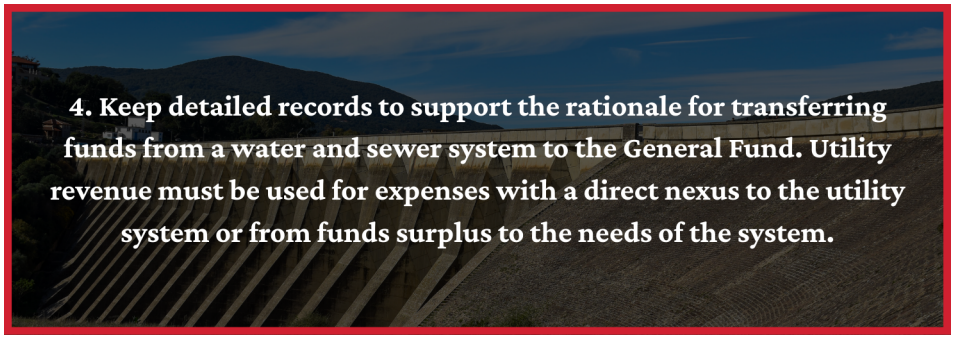
When the municipal utility sweeps utility profits to the municipality's General Fund, the customers who live outside the municipality's boundaries have no vote in how that money is collected or spent. For those customers who do not live in that municipality, this is seen as taxation without representation, as they have no vote on how that money is collected or spent.

To help make sure that drinking and wastewater infrastructure is adequately maintained, and that future demands for water and wastewater service are met, Florida TaxWatch offers the following for consideration by the Florida legislature:

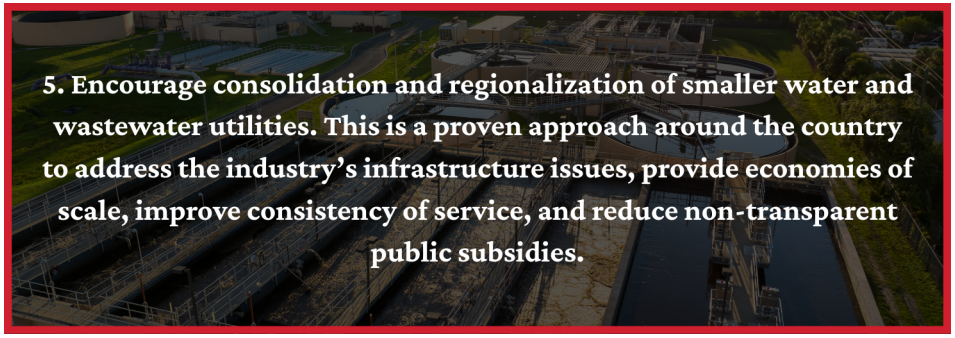
1. Introduce legislation like HB 653 (2020) that will require revenue collected by utilities (both government-owned and private-owned) to be utilized only for the benefit of that utility's operations and infrastructure. This practice is already a requirement for utilities regulated by the Florida Public Service Commission but is not standard practice for non-regulated and government-owned water and wastewater system operators.

2. Adjusting purchase accounting to recognize a utility's full market value is a fundamental aspect of a functional business environment. Establishing rules to recognize a Fair Market Value (FMV) basis for purchase price accounting could pave the way for more consistent investment in Florida's water and sewer infrastructure. FMV laws allow private companies to offer municipalities fair market value for their utility, as determined by an unbiased appraiser.

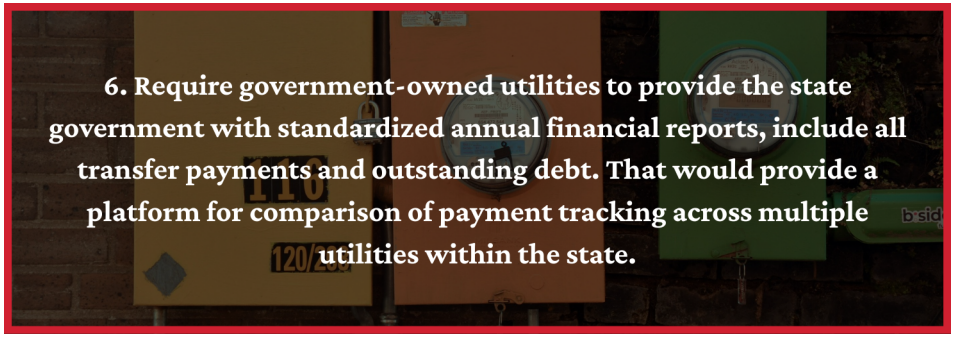
3. Provide stable mechanisms for capital expenditure (Capex) recovery: Allow regulated utilities to make capital outlays for needed investments and receive timely cost recovery through surcharges, which allows for steady rate increases, rather than rate shocks.



4. Keep detailed records to support the rationale for transferring funds from a water and sewer system to the General Fund. Utility revenue must be used for expenses with a direct nexus to the utility system or from funds surplus to the needs of the system.



5. Encourage consolidation and regionalization of smaller water and wastewater utilities. This is a proven approach around the country to address the industry's infrastructure issues, provide economies of scale, improve consistency of service, and reduce non-transparent public subsidies.



6. Require government-owned utilities to provide the state government with standardized annual financial reports, include all transfer payments and outstanding debt. That would provide a platform for comparison of payment tracking across multiple utilities within the state.

7. Introduce utility accountability standards to ensure that all utilities, regardless of ownership type, maintain effective operational and technical practices to protect customers and water utility systems. Consumer protection for this vital public good should be consistently applied; not a patchwork of requirements depending on type of utility ownership.

Introduction

In Florida, an adequate supply of safe drinking water and its supporting infrastructure is essential to our state's personal health and safety and our continued economic growth. Every sector of Florida's diverse economy requires water. While all water in Florida is connected, all water infrastructure is not. Florida has a mix of both publicly owned and privately owned wastewater and drinking water systems. For the purposes of this report, "publicly owned" refers to a water system or utility owned by a local government, specifically a county or municipal government.

The state currently has more than 1,600 drinking water systems; of which, 449 systems are publicly owned utilities and 934 are privately owned.[1] Although publicly owned drinking water systems account for less than one-third of all drinking water systems in the state, they are responsible for providing clean drinking water to more than 18.1 million people, or 86 percent of Florida's population.

In addition, Florida also has more than 4,100 individually permitted domestic (not including septic systems) and industrial wastewater facilities.[2] Of the roughly 4,100 individually permitted wastewater facilities, approximately 2,000 are classified as domestic wastewater facilities which are designed to collect and treat sanitary wastewater or sewage from homes or residences, businesses and other organizations, and institutions such as hospitals, universities or prisons.[3] As of September 30, 2022, approximately 420 domestic wastewater facilities are publicly owned by local governments and 934 are privately owned.[4]

The majority of Florida's domestic wastewater is treated by larger centralized treatment facilities, while the remaining portion is treated by smaller treatment facilities called package plants or networked, distributed wastewater systems. Together, these facilities and systems are responsible for treating approximately 70 percent of domestic wastewater in Florida.[5] Proper treatment and reuse or disposal of domestic wastewater are essential to protecting public and environmental health and safety.

The remaining 30 percent are onsite sewage treatment and disposal systems (OSTDDS), commonly known as septic tanks. Most OSTDS units leak polluted, contaminated wastewater into Florida's ground and surface waters. In 2025, the Florida Legislature passed HB 1123, which allows sewer expansions and authorizes public wastewater utilities to use revenues to convert septic tank systems to central sewers. This expansion adds rete payers and increases utility revenues; however, the new infrastructure requires continuous reinvestments.

1 U.S. Environmental Protection Agency, EPA/State Drinking Water ECHO Dashboard, "Water System Summary," Florida, Fiscal Year 2022, 2nd Quarter, retrieved from https://echo.epa.gov/trends/comparative-maps-dashboards/drinking-water-dashboard, accessed on August 23, 2022.

2 Florida Department of Environmental Protection, "General Facts and Statistics about Wastewater in Florida," retrieved from https://floridadep.gov/water/domestic-wastewater/content/general-facts-and-statistics-about-wastewater-florida, September 8, 2025.

3 Ibid.

4 Florida Department of Environmental Protection, Wastewater Facility Regulation database, "Domestic Wastewater Facilities," last updated on September 30, 2022, retrieved from https://floridadep.gov/water/domestic-wastewater/content/wastewater-facility-information, accessed on October 4, 2022.

5 Florida Department of Environmental Protection, "Domestic Wastewater Program," retrieved from https://floridadep.gov/water/domestic-wastewater, accessed on September 20, 2022.

6 Florida Chamber of Commerce, "Securing Florida's Water Future: The Florida Chamber's Plan for Making Florida More Competitive by Preparing Florida's Infrastructure for Smart Growth and Development," retrieved from file:///C:/Users/bnave/Downloads/SecuringFloridasWaterFuture-Web.pdf, October 20, 2022.

The state's Office of Economic and Demographic Research (EDR) projects that, between 2025 and 2045, the total statewide water usage is expected to increase by about 754.53 million gallons per day (11.4 percent). Although water use is projected to increase in all categories, public supply[7] is projected to account for most of the total growth (70 percent).[8]

Using data provided by Florida's five water management districts, EDR projects that Florida could experience an inferred water supply shortage[9] by as early as this year. The EDR projects that Florida will need to invest an estimated $1.7 billion for critical water projects through 2040 to avoid a significant water supply shortage.[10]

In Florida, the majority of the drinking water and wastewater system infrastructure was developed independently during the 1960's, many of which are still in operation today. After decades of continued economic and population growth, this has led to thousands of individual drinking water and wastewater systems and facilities throughout the state. More importantly, the majority of these systems and facilities is, on average, 50-60 years old, and were not designed or built to handle the current water supply, capacity, and treatment demands. The aged systems and infrastructure require continued maintenance, investment, and replacement to meet established levels of service and keep pace with future demands.

All signs for the future point to increasing fiscal pressure as federal investments decline, emergency preparedness needs rise and evolving cybersecurity and terrorism threats need to be addressed. In all, attention to efficiency and ongoing investments is becoming more important. Sufficient funding and investment in water infrastructure are critical not only for necessary system upgrades and the reduction of the total rate burden, but it also provides support for future plans and programs. Failure to maintain sufficient investments in drinking water and wastewater infrastructure could create situations like those experienced recently in Jackson, Mississippi.

In June 2025, a broken fire hydrant in the City of Mary Esther exposed decades-old vulnerabilities in the City's water infrastructure, leading to a complete city-wide water outage and the issuance of a boiled water notice for City residents. During September and early October 2024, hurricanes Helene and Milton exposed vulnerabilities within critical water infrastructure, causing dozens of municipal wastewater systems in the path of the hurricanes to fail, spilling millions of gallons of wastewater into public waterways.

Florida TaxWatch undertakes this independent analysis to analyze the current state of Florida's publicly owned utilities, including: (1) a review of the practice of transferring utility net revenues to a local government's General Fund (a practice known as "sweeping"); (2) whether this practice results in the undercapitalization of water and wastewater infrastructure; (3) a review of the practice of a municipality that provides water or sewer utility service to consumers in another (recipient) municipality higher rates, fees, and charges than it charges customers within its boundaries; (4) a review of best management practices to ensure proper capitalization of assets; and, (5) appropriate policy recommendations to the Florida Legislature.

7 "Public supply" includes water utilities supplying water for various uses, including household and community purposes, as well as commercial, industrial, institutional, mining, power generation, and recreational landscaping uses
8 The Florida Legislature Office of Economic and Demographic Research, "Annual Assessment of Florida's Water Resources and Conservation Lands, 2025 Edition."
9 An "inferred water supply shortage" should instead be seen as a potential future imbalance between the projected demand and the currently existing inferred supply.
10 The Florida Legislature Office of Economic and Demographic Research, "Annual Assessment of Florida's Water Resources: Supply and Demand," 2024.

Transferring Net Utility Revenue to the General Fund

Publicly owned utilities are expected to be, and generally are, self-supporting enterprises with revenues generated covering their operating and maintenance costs, and the costs of improvements to meet future demands. These revenues, as well as other revenues derived from fees charged for the direct or measurable, voluntary consumption of publicly provided goods or services, are "proprietary fees" that fall into the broad revenue category of "charges for services," and consistently account for the highest percent of total revenue for municipalities (33.9 percent) and counties (30.0 percent).[11] Historically, Florida municipalities have used their home rule powers under Chapter 166, Florida Statutes, to transfer a portion of their profits from utility services to their General Fund. These transferred funds must then be spent for a municipal purpose and not expressly prohibited by law.

For utilities providing drinking water services, the expenses incurred by the utility during standard operations generally include:

- Collecting and pumping water from its original source to the treatment plant;
- Treating (purifying) water to meet drinking water standards, the cost of which varies depending on the source (e.g., brackish versus fresh groundwater);
- Disposing of concentrate or byproduct water resulting from the treatment process;
- Distributing treated water to end users (homes and businesses);
- Monitoring and analytical testing as well as leak detection and repair; and
- Infrastructure maintenance and repair. [12]

For utilities providing wastewater treatment services, the expenses incurred by the utility during standard operations generally include:

- Collecting wastewater and pumping it to the wastewater treatment facility;
- Treating wastewater before final disposal;
- Disposing of or reusing treated wastewater (which may include pumping and other costs); and
- Infrastructure maintenance and repair.[13]

Importantly, when setting drinking water and wastewater utility rates, water utilities must consider not only the standard operating expenses, but also the following factors:

- Debt repayment, if any;
- Costs of replacing older infrastructure;
- Costs of expanding treatment and distribution capacity to meet future population growth;
- Affordability of water services for customers in the service area;
- Passive water use reductions (from the increased use of more efficient water-using appliances and water efficiency building codes); and
- Weather-related water shortage events.[14]

Setting water utility rates that incorporate the recovery of the costs associated with standard operating expenses, debt obligations, and the factors mentioned above, is essential to ensuring the short-term and longer-term financial stability of the utility. Many publicly owned utilities make transfers to the General Fund (a practice known as "sweeping") ostensibly to help pay for governmental services that do not generate revenue (e.g., roadway maintenance, public safety, etc.) and to help keep property taxes lower.

These utility fund transfers function like a tax in that revenue generated by a city-owned utility is used to support general government services instead of being reinvested into the utility. This practice is of concern as it could likely lead to a gap in funding for existing or future infrastructure needs because the net revenue funds are not being used, or set aside, to pay for current or future costs associated with annual maintenance and repairs, or replacement/upgrade of water and wastewater systems and infrastructure.

11 Data for FY 2022-23 from Florida TaxWatch, How Florida Counties Compare, November 2025.
12 Rosinés Colón Ortega, South Florida Water Management District, Water Supply Bureau, "South Florida Water Management District 2021 Utility Rate Survey," 2021, https://www.sfwmd.gov/sites/default/files/documents/SFWMD_Rate_Survey_2021.pdf.
13 Ibid.
14 Ibid.

In addition to not using utility revenues exclusively for utility operations or improving its utilities infrastructure, the transfer of utilities revenues to a local government's General Fund raises several other concerns. The first concern is reduced transparency. Many utility customers are unaware that a portion of their utility payment is used to fund other government programs and services. Second, is misaligned priorities. Keeping property and sales taxes low often means higher municipal utility rates to balance the general budget, a habitual practice that burdens utility customers with cross-subsidies and normalizes underinvestment in infrastructure. Third, is the absence of any voice of those customers who live within the utility's service area but outside the utility's political boundaries. These customers not only have limited transparency, but they have no "say-so" or vote on issues like General Fund transfers (more on this later).

There have been several bills filed in the Florida Legislature over the past few years to address this issue. In 2020, the Florida Legislature considered a bill (HB 653) that would have prohibited a municipal utility from using its revenues to "finance general governmental functions, to purchase bonds to finance general governmental functions, or to lend money to the municipality to finance general governmental functions within the municipality." There was no Senate companion and HB 653 died in committee.

In March 2023, a Florida House panel approved a bill (HB 1331) filed by Rep. Demi Busatta aimed at restricting these transfers. The bill proposed a formula to cap the amount of money a municipal utility could transfer to its city's general fund. The cap would be tied to the "return on equity" rates set by the Florida Public Service Commission for private utilities. The cap would be further decreased based on the percentage of a municipal utility's customers who live outside the city's boundaries. HB 1331 died in committee.

In 2024, HB 1277 would have limited the portion of municipal utility revenues earned from the provision of services outside the municipal boundaries that could be used to finance the municipality's non-utility related general government functions. A municipality could not transfer more than ten percent of the gross revenues generated from electric, natural gas, water, or sewer service provided to consumers outside its municipal boundaries to fund or finance non-utility governmental functions. Further, any revenues remaining after a transfer to the General Fund would be reinvested into the municipal utility or returned to customers living beyond the municipality's corporate limits. HB 1277 died on Second Reading.

In 2025, HB 1523 would have limited the transfer of gross revenues generated by a municipal utility. Under HB 1523, a municipality could not transfer more than ten percent of the gross revenue generated from electric, natural gas, water, or sewer service provided to consumers outside its municipal boundaries to fund or finance non-utility governmental functions. Further, any revenue remaining after a transfer to the General Fund would be reinvested into the municipal utility or returned to customers living beyond the municipality's corporate limits. HB 1523 was passed by the House but was not taken up by the Senate.

Risk of Undercapitalization?

The water industry is capital intensive, requiring a significant amount of funding to invest in the necessary facilities to serve customers and meet established safe drinking water standards, and to repair/replace aging infrastructure. Aging infrastructure, coupled with extreme weather events and the increased cost of regulatory compliance, have placed an increased strain on our water systems. More than one-half of the nation's public water systems have identified the rehabilitation and replacement of aging infrastructure as their most critical challenge.[15] Aging infrastructure is also a major reason for water loss, with approximately 33.3 trillion gallons and $187 billion in revenues lost each year.[16] It is estimated that approximately 20 percent of installed water mains (about 450,000 miles of pipe) have exceeded their useful lives and are awaiting replacement.[17] Each year, there are approximately 240,000 water main breaks, resulting in about $1.6 billion in repair and maintenance costs.[18]

These breaks expose the public to greater risk of water-borne disease. In February of 2021, severe winter weather and freezing temperatures in Texas damaged water distribution networks. Access to clean water was lost for millions of Texans as water mains burst and electricity blackouts crippled water treatment plant operations. Nearly nine million people were under boil-water notices for days to weeks. Many residents reported that, after the water was turned back on, turbidity, odors and slime were commonly observed.[19]

These breaks reduce water pressure, which makes firefighting more difficult. Adequate water supply and pressure are critical when it comes to fighting fires; however, water systems in many areas, particularly rural areas, were built to supply drinking water and not to help facilitate firefighting. These antiquated water lines and outdated fire hydrants often hamper the ability of firefighters to quickly bring fires under control.

Funding for drinking water infrastructure has not kept pace with the growing need to address aging infrastructure systems, and current funding sources do not meet the total needs. Federal funding, which in 1977 represented almost two-thirds of capital investments in water infrastructure, had decreased to about nine percent of total capital spending by 2017. [20] A 2024 economic study by the American Society of Consulting Engineers found that the projected gap between drinking water infrastructure needs and investments in 2024 was approximately $309 billion, and was projected to increase to $620 billion by 2043.[21]

Aging water infrastructure, the costs of regulatory compliance (to meet water quality standards), and declining federal funds have increased the burden of state and local governments to fund the costs of operations and maintenance, and future capacity improvements. These costs are significant, requiring water utilities to finance capital infrastructure projects using loans or other financial instruments along with water utility rate increases. Typically, existing customers bear the brunt of the financial burden for improving or replacing water facilities and infrastructure by paying increased utility rates.[22] In Florida, annual publicly owned drinking water and wastewater utility rates increased an average of 15.6 percent, or 2.45 percent annually, from 2014-2020.[23]

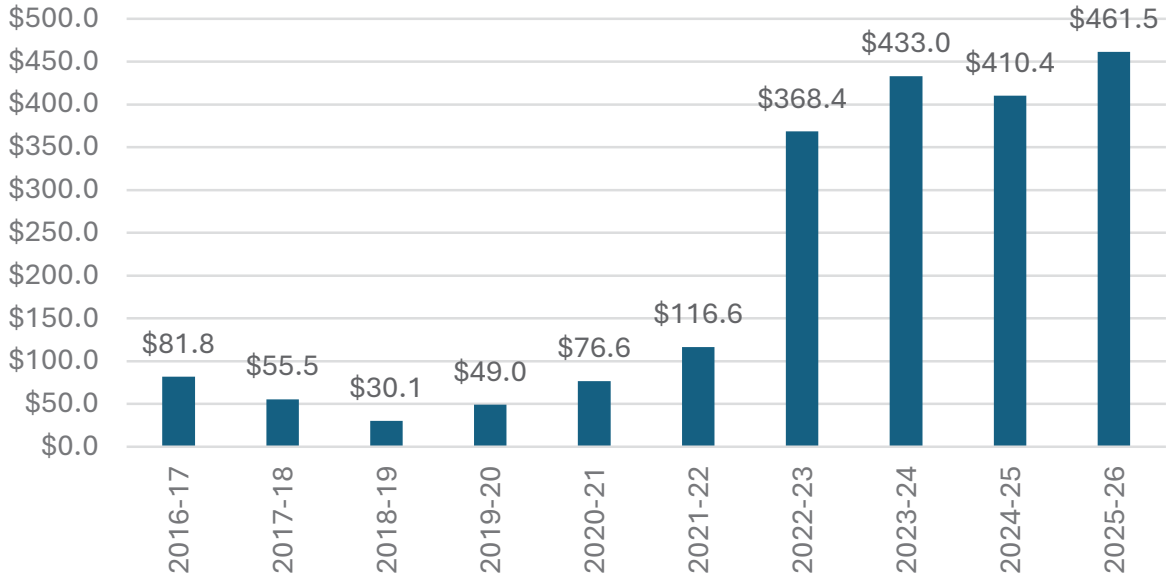
15 American Society of Civil Engineers, "2025 Report Card for America's Infrastructure: Drinking Water."
16 Ibid.
17 Ibid.
18 Ibid.
19 Kelly A. Reynolds, "Water Main Breaks and Public Health Risks," Water Conditioning and Purification International Magazine, April 15, 2021, retrieved from https://wcponline.com/2021/04/15/water-main-breaks-and-public-health-risks/, December 7, 2022.
20 Supra, see footnote 16.
21 American Society of Civil Engineers, Value of Water Campaign, "Bridging the Gap: The Power of Investment in Water," 2024.
22 Raftelis, "2020 Florida Water and Wastewater Rate Survey," August 18, 2020, http://www.raftelis.com/wp-content/uploads/2020/08/2020-Florida-Water-and-Wastewater-Rate-Survey.pdf.
23 Florida TaxWatch analysis of Raftelis, "2020 Florida Water and Wastewater Rate Survey," August 18, 2020, http://www.raftelis.com/wp-content/uploads/2020/08/2020-Florida-Water-and-Wastewater-Rate-Survey.pdf

State funding for local (member) water and wastewater projects over the past decade is shown in Figure 1 (before vetoes). As shown in Figure 1, the Florida Legislature has dramatically increased the funding for local member water and wastewater projects. This is only part of the local financial assistance the state provides to local governments for water infrastructure and restoration. What is different about member projects is that they appear in the budget without going through a grant review process by the Department of Environmental Protection (DEP). The most recent budget was a step in the wrong direction, away from thoughtful project selection. The budget provided $461.5 million for competitive Water Quality Improvement grants but earmarked nearly all of it or 314 member projects. Bypassing established competitive selection processes reduces the chance that limited funding is spent in a way that provides the best return on taxpayer dollars and does not promote a comprehensive, coordinated, statewide water strategy.

The large influx of federal stimulus funds from the COVID-19 pandemic, coupled with a better-than-expected economic recovery post-pandemic, left the state flush with cash and much of it was spent on local water project assistance. It is unlikely this funding for water and wastewater projects is sustainable over the long term, which makes it even more important that local governments do not divert their water system revenue to other uses. Larger utilities generally have the advantages of more resources and expertise, so smaller utilities (with smaller customer and rate bases) operate at a competitive disadvantage and have a harder time paying their capital costs.

Much of Florida's drinking water and wastewater facilities and infrastructure is aging and is, on average, 40-60 years old; exceeding the average life expectancy by 10-20 years. According to recent reports by the U.S. Environmental Protection Agency and the American Society of Civil Engineers, Florida will need to spend about $22 billion in the next 20 years to address drinking water infrastructure improvements, and about $18

Figure 1.
Legislative Appropriations For Water Projects Have Increased Significant FY 2021-22 ($Millions)



Source: General Appropriations Acts

billion for wastewater infrastructure improvements[24] over that same period to ensure the state's water systems continue to provide safe, clean, and reliable water.

Consequently, many publicly owned water utilities have struggled to fund the operations and maintenance of their water systems or adequately invest in water infrastructure.[25] This is particularly true for smaller water utilities, in part because "smaller utilities often have more miles of pipe per customer and have a smaller customer base from which to collect revenue" for repairs or replacement of infrastructure.

This has resulted in a significant backlog of deferred maintenance on aging and overburdened publicly owned water infrastructure that is increasingly vulnerable to further degradation, climate change, natural disasters, and critical system failures. As a result, every year an increasing number of publicly owned water utilities are turning to the state for funding and other financial assistance to maintain, repair, improve, upgrade, and replace local water systems and infrastructure.[26]

Moreover, local governments that transfer, or sweep, revenues from publicly owned water utilities to the General Fund to finance unrelated programs and operations are more likely to need state funding and financial assistance and in larger amounts to offset or supplement the financial burden of expenditures on water infrastructure. This is not only unfair, but it also reduces the total amount of state funding and financial assistance available to other utilities; further increasing the likelihood of other publicly owned water utilities' underinvestment and deferred maintenance of water infrastructure due to insufficient funding.

The revenue sweeps, coupled with reductions in federal funds for water infrastructure projects and in conjunction with the growing number of local government special project funding requests are clear indicators of the risks of undercapitalization of water infrastructure.

Taxation Without Representation?

Florida law[27] permits a municipality operating a water or sewer utility outside its corporate boundaries to generate additional revenue by selling utility services to customers outside their municipal boundaries. Municipalities are permitted to impose higher rates, fees, and charges on customers receiving service outside of its corporate boundaries as compared to the rates, fees, and charges imposed on consumers within its boundaries. This is a regressive practice in that it creates a larger burden on lower-income customers than on middle- or higher-income customers.

A 2025 analysis of HB 11 by the professional staff of the House of Representatives acknowledges that "there is no central repository for information concerning municipal water or sewer service rates that identifies municipalities that impose higher rates on consumers outside of the municipal boundaries, the specific mechanism used by such municipalities to establish such rates, or the level of any additional charge or surcharge imposed."[28] The House staff cites an informal 2014 study indicating that "approximately 250 municipalities provided water service and approximately 220 municipalities provided wastewater service.

Of these municipalities, the study found that approximately 140 provided water and/or wastewater services to consumers outside of their municipal boundaries, which may have included consumers in unincorporated areas of counties or in other municipalities."[29]

It can be argued that, when a municipal utility transfers profits to its host city's general budget, those profits are essentially a tax on the utility's customers. When the municipal utility sweeps utility profits to the municipality's General Fund, the customers who live outside the municipality's boundaries have no vote in how that money is collected or spent. For those customers who do not live in that municipality, this is seen as taxation without representation, as they have no vote on how that money is collected or spent.

24 US EPA Clean Watersheds Needs Survey 2012. https://www.epa.gov/sites/default/files/2015-10/documents/cwns_fs-fl.pdf
25 American Society of Engineers, "2021 Report Card for America's Infrastructure," March 3, 2021, https://infrastructurereportcard.org/wp-content/uploads/2020/12/National_IRC_2021-report.pdf.
26 Ibid.
27 §180.191, Fla. Stat.
28 Florida House of Representatives, "Final Bill Analysis, HB 11," July 7, 2025.
29 Analysis of House Bill 813 (2014), Florida House of Representatives.

Consider the Town of Indian River Shores ("Town"), a small municipality located in Indian River County (County). The Town comprises about two percent of the County's population and about 18 percent of the County's ad valorem tax revenues. After considering competing proposals from the County and the City of Vero Beach ("City") for the provision of water, wastewater, and reuse water, the Town selected the City as its service provider. In response to the Town's concerns that its residents had no electoral voice in the rates charged by the City, the City and Town entered into a franchise agreement under which the City agreed that it would not charge the Town and its residents rates higher than the rates charged by the County.

Seven years into the franchise agreement (2019), the County lowered its rate for water reuse. When the City advised the Town that it would not match the County's lower rate, the City sued to enforce the franchise agreement. The trial court found that using the County's rate would force the City to charge higher rates to city residents, which is contrary to Florida law [30] that allows a municipality to charge the same rate to water users outside its jurisdiction. The statute does not authorize a municipality to charge less to outside users than its own residents.[31] The trial court's decision was subsequently upheld by the Fouth District Court of Appeals.

In 2025, HB 11 was filed ostensibly to resolve a local utility dispute between the City of Miami Gardens and the City of North Miami Beach. Under HB 11, a municipality that provides water or wastewater service to consumers in another municipality (recipient municipality) must charge those consumers the same rates, fees, and charges as it charges consumers within its boundaries if: (a) the municipal utility has a facility located in the recipient municipality, and (b) the municipality is located within a county as defined in Florida Law. Opponents of HB 11 maintained that the bill would benefit ratepayers in the recipient municipality while potentially raising the rates in the host municipality. HB 11 was ultimately approved by both the House and Senate and ultimately vetoed by the Governor. In his veto message, the Governor acknowledged that "[I]t is not the role of the state to referee such a dispute," and that the legislature can "institute measures - applicable to the entire state of Florida -to ensure that ratepayers inside and outside city limits have a voice in the rate setting process."[32]

Planning/Management Best Practices

Florida's water and sewer system is highly fragmented. Effective utility management practices are the foundation for building and sustaining the technical, managerial, and financial capacity of the drinking water, wastewater, and stormwater systems that make up the water sector. Management practices must address all aspects of a system's operations and maintenance.

Asset Management

Many water and wastewater utilities are turning to asset management techniques to maximize service delivery to customers without compromising the ability to meet future needs. Effective asset management starts with sound planning and design and includes procedures to optimize operations and maintenance, and to replace and dispose of system assets. An effective asset management program looks at:

- Current state of assets — includes an inventory of current assets, their location, condition, and remaining economic value;
- Required levels of service — includes current customer demand and actual asset performance;
- Business risks — looks at the likelihood and consequences of failure;
- Best investment strategies — looks at alternative management options and identifies the one(s) that are most feasible; and
- Determines the best long-term funding strategy. [33]

30 §180.191(1)(a), Fla. Stat. (2019).
31 See, e.g., Town of Palm Beach Shores v. City of Riviera Beach, 916 So. 2d 25, 27 (Fla. 4th DCA 2005); City of Clearwater v. Bonsey, 180 So. 2d 200, 203–04 (Fla. 2d DCA 1965).
32 Governor DeSantis' July 2, 2025 veto message to Secretary of State Cord Byrd regarding HB 11.
33 American Water Works Association, "Planning for Rehabilitation, Renewal, and Replacement,", retrieved from https://www.awwa.org/Resources-Tools/Resource-Topics/Asset-Management#9665333-policy--advocacy, October 15, 2022.

Collaboration, Cooperation, and Consolidation

This is also a time of growing complexity and unprecedented change in the water sector. Collaboration and cooperation will be essential to securing Florida's water future. As the old adage goes—"there is strength in numbers." Consequently, opportunities exist to improve water delivery service through informal collaboration agreements between utilities, and by merging the financial and governance functions of separate utilities.

When utilities consolidate, they pool resources to serve larger customer bases. Consolidation of water utilities can create a smaller number of more independent, higher capacity utilities, providing the following benefits:

- **Economies of scale and operating efficiency** — water and wastewater services involve business functions that can benefit from being spread out over a larger customer base. Operating and staffing expenses also benefit from economies of scale.
- **Increased access to capital at a lower cost** — consolidated utilities can access capital from investors at a lower cost. As a result, consolidated systems may receive better terms and interest rates on bonds and commercial loans from private capital markets to fund capital improvements.
- **Revenue stability** — Consolidation can make systems less vulnerable to revenue shortfalls. Consolidated systems that tie together more diverse water users are better able to mitigate revenue fluctuations and spread the costs of filling shortfalls over a larger customer base when they do occur.
- **More favorable rates** — Rate parity across customer bases is typically a more common goal than rate reductions, so carefully structured consolidation can equalize rates among customers within a service area and slow future rate increases for all involved.
- **Reduced exposure to regulatory penalties** — consolidation is increasingly becoming one of the main solutions for achieving cost effective regulatory compliance. Consolidating utilities can shift regulatory responsibility, streamline and reduce the cost of regulatory approvals, and, in some cases, provide immediate regulatory financial relief.
- **Improved planning and risk management** — organizational and water resources planning processes under a consolidated utility can produce a more comprehensive, less "piecemeal" strategy than when spread across multiple systems or localities.
- **Increased opportunities for economic development** — consolidation may give communities the opportunity to address water supply or water infrastructure challenges that deter growth or lead to economic decline.[34]

From time to time, water users in areas where water is constrained engage in "water wars" with users in surrounding areas where water resources are more plentiful. For more than 30 years, Florida has been engaged in a water war with the neighboring state of Georgia over the freshwater flow through the Apalachicola-Chattahoochee-Flint River Basin into Apalachicola Bay. Since 2013, the two states have spent more than $150 million litigating a solution.[35] That is money that could have been more wisely spent in the pursuit of policies that limit the potential for competition by promoting collaborative, regional water supply solutions through financial incentives and increase the use of long-term water use permits.[36]

Fair Market Value

Fair market value (FMV) acquisition is a rate mechanism used to encourage well-operated water and wastewater utilities to acquire small, municipal, or distressed systems. These acquisitions are helpful in reducing the number of struggling water systems and improving water quality for customers.

The traditional method for determining the value of a water or wastewater system to be acquired is to calculate the system's "book value" (original rate base value less depreciation). The book value of a water system at the time of acquisition is generally determined based on decades of depreciation and

34 U.S. Water Alliance and the UNC Environmental Finance Center, "Strengthening Utilities Through Consolidation: The Financial Impact," February 2019.
35 Cynthia Barnett, "Why America's Water Wars are Futile," Tampa Bay Times, April 9, 2021, retrieved from https://www.tampabay.com/opinion/2021/04/09/why-americas-water-wars-are-futile-column/, October 19, 2022.
36 Supra, see footnote 6.

provides an estimate of the system's value at acquisition and throughout its useful life. [37]The book value of an asset typically underreports the true value of the asset. With respect to the water industry, there has been a difference between the value municipalities have placed on their assets and what potential buyers were required to pay to acquire those assets.[38]

FMV differs from traditional valuation methods in that it increases the allowable rate base associated with an acquisition by allowing the fair market value of the acquisition (generally determined by multiple appraisals) to be included in the rate base of the newly acquired system. Sixteen states have considered adopting FMV acquisition rate mechanism, with 12 states adopting these policies. One of the four states that considered, but did not adopt FMV legislation, is Florida.

In 2020, the Florida Legislature considered SB 658 and HB 207, which would have created a process by which a utility acquiring an existing utility system may seek to establish a rate base value (the value upon which rates are set) for the acquired utility system based on the fair market value of the utility system instead of the system's original cost at the time it was placed into service. The process would be available only to acquiring utilities that provide water and wastewater services to more than 10,000 customers and are engaged in a voluntary and mutually agreeable acquisition of a water and wastewater system.[39]

Although legislative staff determined that the bills' fiscal impacts on ratepayers were "uncertain," the Florida Public Service Commission raised concerns about whether this valuation practice provides enough value to customers, since the higher valuation and purchase prices of acquired small utilities would result in higher rates for customers.[40] SB 658 died in committee and HB 207 died on the calendar.

Capital Expenditure (Capex) Recovery Mechanisms

Capital Expenditure ("Capex") Recovery Mechanisms allow regulated utilities to apply a surcharge on customers' utility bill to "accelerate the replacement of existing aging facilities" rather than wait until the utility has a completed rate case before the utility could recover the investment made. Twenty-two states have water- and/or sewer-related capex recovery mechanisms in place.

Conclusions and Recommendations

Funding for drinking water infrastructure has not kept pace with the growing need to address aging infrastructure systems, and current funding sources do not meet the total needs. Aging water and wastewater infrastructure, the costs of regulatory compliance (to meet water quality standards), and declining federal funds have increased the burden of state and local governments to fund the costs of operations and maintenance, and future capacity improvements. As a result, many local and state governments are forced to forgo or defer critical repairs and replacement of water infrastructure, which leads to further undercapitalization of critical facilities and infrastructure. Larger utilities generally have the advantages of more resources and expertise, so smaller utilities (with smaller customer and rate bases) operate at a competitive disadvantage and have a harder time paying their capital costs.

The practice of transferring a portion of a utility's net revenue to the local government's General Fund to help pay for programs and services that are not revenue producing, and to keep taxes lower, is commonplace. Local governments that transfer, or sweep, revenues from water utilities to the General Fund are more likely to need state funding to offset the financial burden of expenditures on water infrastructure. This is not only unfair, but it also reduces the total amount of state funding and financial assistance available to other utilities – further increasing the likelihood of other publicly owned water utilities' underinvestment in and deferred maintenance of water infrastructure due to insufficient funding.

37 Kathryn Kline, "A Review of State Fair Market Value Acquisitions Policies for Water and Wastewater Systems," National Regulatory Research Institute, September 2021.
38 S&P Global Market Intelligence. "RRA Water Advisory: Intro to Water Utilities – Current Trends & Growth Drivers." July 19, 2021.
39 Professional Staff of the Florida Senate, "CS/SB 658, Water and Wastewater Systems," Bill Analysis and Fiscal Impact Statement, February 17, 2020.
40 Florida Public Service Commission, "Agency Analysis of 2020 House Bill 207," January 6, 2020.

To help make sure that drinking and wastewater infrastructure is adequately maintained, and that future demands for water and wastewater service are met, **Florida TaxWatch offers the following for consideration by the Florida legislature:**

1. **Introduce legislation like HB 653 (2020) that will require revenue collected by utilities (both government-owned and private-owned) to be utilized only for the benefit of that utility's operations and infrastructure.** This practice is already a requirement for utilities regulated by the Florida Public Service Commission but is not standard practice for non-regulated and government-owned water and wastewater system operators.

2. **Adjusting purchase accounting to recognize a utility's full market value is a fundamental aspect of a functional business environment.** Establishing rules to recognize a Fair Market Value (FMV) basis for purchase price accounting could pave the way for more consistent investment in Florida's water and sewer infrastructure. FMV laws allow private companies to offer municipalities fair market value for their utility, as determined by an unbiased appraiser.

3. **Provide stable mechanisms for capital expenditure (Capex) recovery:** Allow regulated utilities to make capital outlays for needed investments and receive timely cost recovery through surcharges, which allows for steady rate increases, rather than rate shocks.

4. **Keep detailed records to support the rationale for transferring funds from a water and sewer system to the General Fund**. Utility revenue must be used for expenses with a direct nexus to the utility system or from funds surplus to the needs of the system.

5. **Encourage consolidation and regionalization of smaller water and wastewater utilities.** This is a proven approach around the country to address the industry's infrastructure issues, provide economies of scale, improve consistency of service, and reduce non-transparent public subsidies.

6. **Require government-owned utilities to provide the state government with standardized annual financial reports,** include all transfer payments and outstanding debt, would provide a platform for comparison of payment tracking across multiple utilities within the state.

7. **Introduce utility accountability standards to ensure that all utilities, regardless of ownership type, maintain effective operational and technical practices to protect customers and water utility systems.** Consumer protection for this vital public good should be consistently applied; not a patchwork of requirements depending on type of utility ownership.

About Florida TaxWatch

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the taxpayers of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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