

**Written Testimony submitted to Catarina de Albuquerque, UN  
Independent Expert on the issue of human rights obligations  
related to access to safe drinking water and sanitation**

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*Submitted by:*

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At Food & Water Watch, we believe that water is a common resource to which we all have an equal right and a responsibility to protect.

Water is enshrined in the right to life and dignity, as set forth in the Universal Declaration of Human Rights. In 2002, the United Nations Economic and Social Council adopted water as a right to ensure fair and non-discriminatory access to safe drinking water.

However, the right to water is violated daily: According to the World Health Organization an estimated 1.7 billion people still lack access to clean water and 2.3 billion people suffer from water-borne diseases each year. Water-borne diseases occur due to the inability to provide clean water, but increasingly due to the unaffordable pricing of water. Pre-paid water meters are installed in poor areas to ensure profitable supply and services are cut-off if citizens fall behind on their payments. Privatization of water has only exacerbated the problem.

States are ultimately responsible for ensuring access to clean water for household use and thus for ensuring the human right to water. There can certainly be a role for the private sector in laying pipes, building infrastructure, recycling dirty water and other such contractual arrangements, but the private sector and the market should not be allowed to set water policy or determine access.

Multinational corporations are increasingly moving to profit from water and it is the burden of states through the democratic process to hold these corporations and any private sector participant accountable for the violation of human rights in their search for profits. We see companies signing contracts to privatize municipal water systems in developed and developing countries alike. In poor countries, these deals often take the form of public-private partnerships (P3s), financed by the World Bank. P3s often increase costs, worsen service quality, reduce transparency and allow infrastructure assets to deteriorate. They are an impractical alternative to traditional public water provision.

P3s have been used both in the U.S. and abroad to privatize municipal water systems and our research shows that water, as the most basic human need, is provided most fairly and efficiently as a public good. Eighty-five percent of Americans receive their household water from publicly owned and managed water companies; this ensures that decisions are made locally, that revenue is reinvested at home and that information is available to the public. Especially given the current financial crisis, development aid in the water and sanitation sector should be dedicated to strengthening and expanding transparent and accountable public water systems.

The argument is often made that P3s work when there is sufficient regulation. If this were true, P3s would be a success story in the U.S. but in fact, there are countless stories of failed P3s and other forms of privatization from Atlanta, Georgia to Stockton, CA and dozens of other cities.

Already, U.S. cities endure 250,000 to 300,000 water main breaks, lose one-fifth of their water through leaks and suffer 1.2 trillion gallons of wastewater spills each year.<sup>12</sup> Americans will spend up to \$1 trillion by 2019 to upgrade and repair our 1.5 million miles of piping and the treatment plants to avoid a public health crisis.<sup>3</sup>

Instead of solving our water crisis, privatization pads the pockets of corporate water barons. A 2007 report compiling newsletters from July 2006 to the end of 2007 by investment firm Boenning & Scattergood reveals that, thanks to some fancy finance and accounting, private utilities tie higher earnings to increased costs. Corporations have a financial incentive to oppose conservation, protection of drinking water sources and other policies and programs that would save money and help offset the economic burden on communities across the nation. Wasted water drives up a company's revenue, which flows from people's water bills.

The investor research firm states that a "high profile system failure would 'help' the situation." Experts believe that if "faulty underground infrastructure were to interrupt a major city's water supply for an extended period," the public would be less resistant to rate hikes that benefit corporations.<sup>4</sup>

The Boenning & Scattergood report reveals that a future favorable to investor owned utilities is a future with poor consumer protections, a limited or non-existent federal safety net for low income communities and large infrastructure investments built to maximize profit, not the interest of the environment or the public. In fact, the prophets of privatization speak out against a federal trust fund for our water and sewer systems. In their view, "every dollar that the federal government injects into local water systems is a dollar that will not go into someone's rate base..."<sup>5</sup> That "someone" is a water corporation and the "rate base" is revenue from community bills.

In sub-Saharan Africa, 80 percent of the major water privatization contracts have either been terminated or have been the subject of disputes between public authorities and the private operators over levels of investment. The world has seen one scandal after another where multinationals have not just failed, but left a huge mess behind—Cochabamba, Bolivia; Dar es Salaam, Tanzania; and Atlanta, Georgia, to name just a few. Even as multinationals point to some examples that they consider successful, profits are still exported, local and national sovereignty is still sacrificed, and transparency is still reduced.

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<sup>1</sup> Lavelle, Marianne. "Water Woes: It's a Special Commodity Everyone Takes for Granted." *U.S. News & World Report*, June 4, 2007.

<sup>2</sup> Congressional Budget Office, November 2002, op. cit p. 8.

<sup>3</sup> Ibid. 33

<sup>4</sup> Connors, Ryan M. and Mince, Christopher R., "Boenning & Scattergood Water Digest: Compendium: July 2006-December 2007," Boenning & Scattergood, Inc, W. Conshohocken, PA, December 2007, p. 63.

<sup>5</sup> Ibid., p. 15.

We are also seeing a widening chasm between the way urban and rural water systems are managed. Multinational corporations compete to sign five- to 30-year management contracts in urban areas where population density allows them to earn a profit. They have no interest in rural areas where too much infrastructure outlay would be required. In Tanzania, for example, while Biwater won a contract to deliver water services in Dar es Salaam, rural water provision was left to NGOs. Urban dwellers are stated soon to outnumber rural dwellers worldwide. In fact, UN Habitat says that the "urbanization of poverty" has been ignored because aid agencies have traditionally focused on rural areas. Regions need to develop integrated, sustainable management plans around watersheds that emphasize conservation and include both urban and rural water provision.

On the following pages, you will find our report, *Money Down the Drain: How Private Control of Water Wastes Public Resources*, which statistically details the failures of water privatization in the United States and shows unequivocally that water is best provided as a public resource.



# Money Down the Drain

**How Private Control of Water Wastes Public Resources**

food&waterwatch



## About Food & Water Watch

Food & Water Watch is a nonprofit consumer organization that works to ensure clean water and safe food. We challenge the corporate control and abuse of our food and water resources by empowering people to take action and by transforming the public consciousness about what we eat and drink. Food & Water Watch works with grassroots organizations around the world to create an economically and environmentally viable future. Through research, public and policymaker education, media and lobbying, we advocate policies that guarantee safe, wholesome food produced in a humane and sustainable manner, and public, rather than private, control of water resources including oceans, rivers and groundwater.

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# Money Down the Drain

## How Private Control of Water Wastes Public Resources

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## Executive Summary

Our country faces one of the greatest challenges of this generation. The collapse of the housing market has forced families out of their homes, dried up capital markets, led to job loss and unemployment and left local governments scrounging for money just to keep day-to-day operations running. This includes water and sewer service. Dilapidated sewer lines, faltering treatment plants and unfunded federal mandates only further burden struggling municipalities.

Water corporations are trying to milk this economic turmoil for all its worth. They are approaching cash-starved cities and towns with offers of money in exchange for their water and wastewater systems.

Confronted with tough choices, and beleaguered by corporate lobbyists, many elected officials fall prey to the quick fix proffered by advocates for privatization. Leases and asset sales of municipal systems were rare in the United States until recently. In 2008, several cities, including Akron, Ohio, and Milwaukee, Wis., have laid the option on the table. While local governments would get an influx of cash, corporations would recover that amount, along with their profits, through rate hikes and service cuts. It amounts to taxing residents through their taps. What's more, it's an expensive way to finance infrastructure and services.

Companies often tout the idea that the private sector is more efficient, and that they can upgrade systems at a lower cost. In fact, both notions are myths, and public officials should know better than to get caught up in the corporate spin. Privatization does not enhance efficiency. The results are mixed, at best, and many communities end up paying much more, if not through their bills, then through the degradation of their service and environment.

From Fairbanks, Alaska, to North Brunswick, N.J., residents have felt the sting of perpetual rate hikes after privatizing their sewers. An analysis of 20 states shows that these experiences are not just anecdotal; they are demonstrative. Compared to municipalities, private utilities charge as much as 80 percent more for water and 100 percent more for sewer service.

High financing costs, taxes, profit requirements and an assortment of other factors collide to make privatization an expensive and irresponsible alternative to reliable public management. Lynn, Mass., had to shell out nearly twice as much as it should have after giving a corporation control over a project to separate its combined sewer system and eliminate sewage spills.

Cities across the nation now realize that privatization has failed to yield the promised savings, and when it does cut costs, it does so by sacrificing human and environmental health. Lee County, Fla., spent years and millions of dollars cleaning up the mess of corporate neglect.

Using shoddy construction materials, deferring maintenance, backlogging service requests and massive downsizing of the workforce are common tactics of a profit-driven water corporation.

Municipalities have better options to reduce costs and stabilize rates. Public purchases of privately owned systems in Felton, Calif., and Fort Wayne, Ind., have saved many families hundreds of dollars a year on their water bills. From Houston, Texas, to Fairfield-Suisun, Calif., cities are finding that the public can provide better, cheaper, faster service.



What's more, public employees have pioneered even more ways to keep rates low. Whether in Ann Arbor, Mich., or Miami-Dade County, Fla., public utilities have come together with labor unions and other municipalities to implement innovative strategies to cut costs and improve service. Many more cities could employ similar plans if only they are bought a little more time to stave off corporate takeovers.

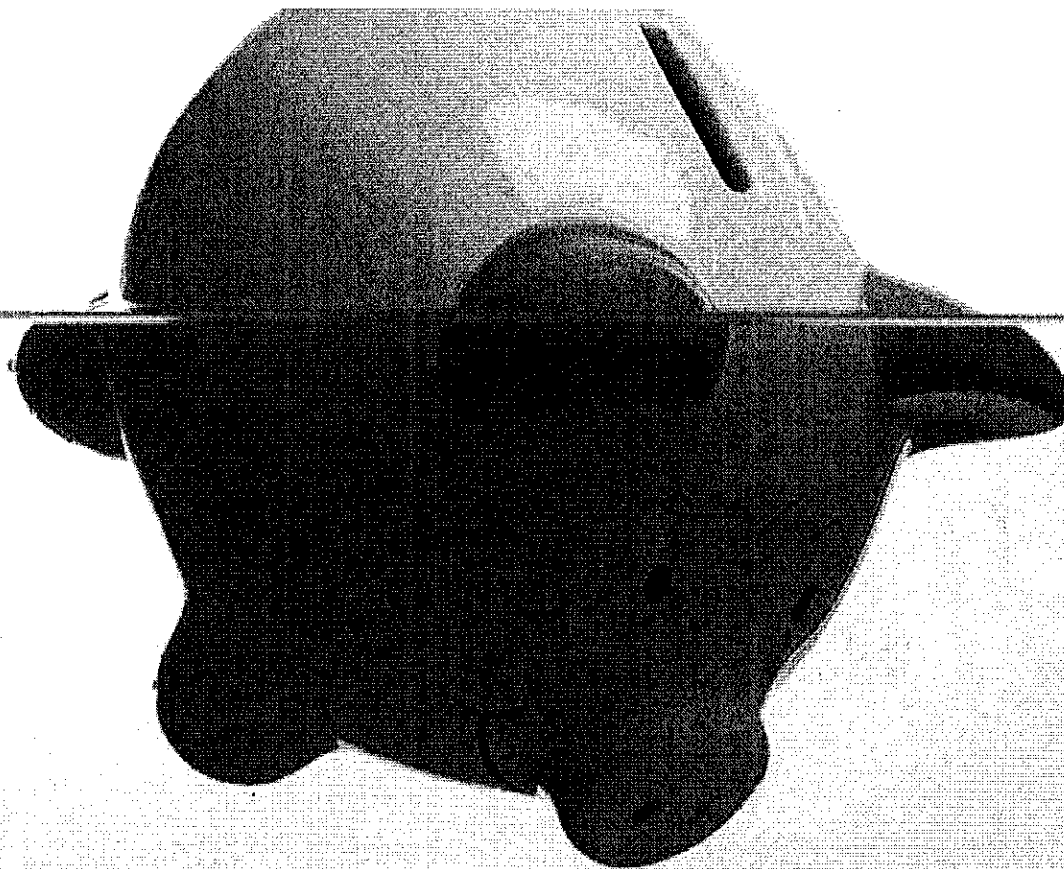
If the federal government does not act, more and more floundering public officials will collude with corporate profiteers to hatch privatization schemes in attempt to ease budgetary woes.

Our country needs a federal trust fund for safe and clean water and a national infrastructure reinvestment bank that will provide public utilities with the support they need. This assistance must go only public entities and public projects. With a renewed federal commitment, our nation's good public operators can keep our water safe, clean and affordable for generations to come.

## Key Findings

- Private utilities charge higher rates than municipalities
- Privatization does **not** increase the efficiency of water and sewer systems.
- Privatization has many hidden expenses.
- Water corporations drive up costs and shoot down service quality.
- The public can do it better and cheaper.
- Public funding for water must go to **only** public utilities.

*“Water links us to our neighbor in a way more profound and complex than any other.” – John Thorson*



## The Public Has a Right to Decide

**“We** looked at this as a right to decide issue,” said Greg Coleridge of Akron, who, along with Jack Sombati, led the people of Akron, Ohio, to a great public victory against a well-oiled political campaign to privatize their sewers.<sup>1</sup>

On November 4, 2008, a date that will live on in the hearts and minds of many people in the United States as the day the country underwent a profound social transformation by electing its first black president, Akron residents went to the polls and issued a resounding call for public water. With a countywide voter turnout of more than 70 percent, Akron overwhelmingly rejected privatization and overwhelmingly supported the public’s right to have a voice in what happens to their utilities.<sup>2</sup>

“It was a wonderful collective victory with so many people having a role that was so powerful,” said Coleridge, the director of the Economic Justice and Empowerment Program for the Northeast Ohio American Friends Service Committee.<sup>3</sup>

Coleridge and Sombati, the campaign coordinator for the American Federation of State, County and Municipal Employees (AFSCME) Ohio Council 8, brought together stakeholders throughout the city to form a broad coalition of labor, faith and community organizations known as Citizens to Save Our Sewers and Water. After a grueling campaign, Citizens SOS triumphantly put an end to the ill-advised plan to privatize the city’s sewers.

The mayor masked the privatization under the guise of a scholarship program. He said he wanted the sewer lease to garner a multimillion-dollar upfront payment that would help send high school graduates to local colleges and trade schools.

The plan was irresponsible and unnecessary. The lease would have been merely a cumbersome and expensive loan that city residents would have had to pay back through their sewer bills. Selling municipal bonds is a cheaper way to finance city programs.

Coleridge and Sombati believe that the mayor’s main focus was never the scholarship, but the privatization. The mayor couched the lease in terms of the scholarship because “it was easier to sell the lease that way,” said Coleridge. “Who cannot want but to help kids?”<sup>6</sup>

That is the sentiment that Plusquellic used during his State of the City address, when he asked, “What higher purpose can there be than investing in our children?”<sup>7</sup>

The mayor's tactic reminded Coleridge of something once said by Saul Alinsky, who was a distinguished community organizer and writer: "Saul Alinsky said that to get people to move, you talk about one of two things: kids or rats. The mayor was promoting kids. It was a diversion from having to debate privatization head-on."<sup>8</sup>

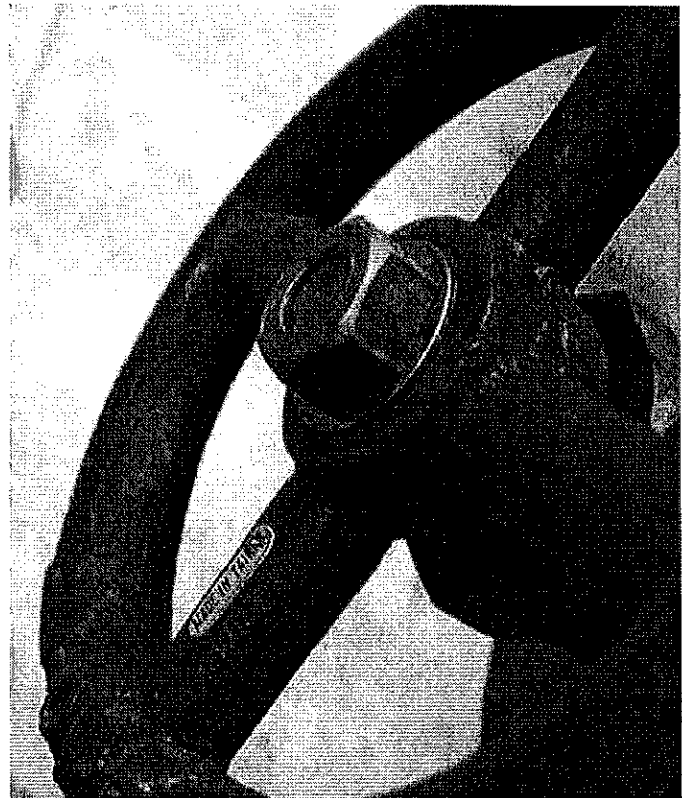
While Plusquellic danced around the issues, Citizens SOS focused on getting the word out about the little that they did know about the lease and the scholarship. Part of their success was their quick response. They were on the street before the mayor had produced any details about the lease. They contacted the city council and organized screenings of the film *Thirst*, a 2004 documentary about water privatization in Stockton, Calif., to educate the community and gauge public opinion.<sup>9</sup> "Food & Water Watch sent grassroots speakers from Stockton and Detroit to share their first-hand experiences of privatization horrors," Coleridge said.<sup>10</sup>

Overall, the public responded very negatively to the sewer lease. "People didn't like this proposal because when you turn over public control, citizens are defenseless," said Coleridge, adding that this fear was particularly strong among people on "the cusp of losing their homes" who may not be able to afford rate hikes.<sup>11</sup>

Citizens SOS decided that the best way to counter the mayor's proposal was to require voter approval before the privatization of any public utility. To do this, they needed to pass a ballot referendum. In order to do that, they had to collect enough signatures to get their proposal on the November 2008 ballot and then educate voters about the issue.

In May 2008, Citizens SOS organized a community meeting to jump-start the petition drive. More than 150 people attended.<sup>12</sup> With this auspicious beginning, they had no trouble collecting the necessary signatures to get their issue on the ballot.

*Selling municipal bonds is a cheaper way to finance city programs.*



"People were pretty positive once you explained what we were trying to do," said Coleridge. "We had no problems getting signatures." Citizens SOS explained that they wanted to give residents the right to decide whether to privatize any public utility. "Who could oppose that?" Coleridge asked rhetorically. "Who doesn't want to have a greater voice in making decisions? ... People would say, 'Of course, it should be this way. It's about time. It should be this way for more things.'"<sup>13</sup>

By mid-July 2008, Citizens SOS had circulated 150 petitions,<sup>14</sup> and collected nearly 4,000 valid signatures, more than enough to get their issue on the ballot. The city council, however, refused to move on the measure at a July meeting and had to hold a special session during its August recess to vote on it.<sup>15</sup>

The delay gave the mayor extra time to come up with not just one ballot proposal, but four separate measures related to privatization. "They were all baloney," said Coleridge. "They were only added to try to confuse. Our initiative then would become part of a cauldron of mush. It would be hard to differentiate it."<sup>16</sup>

Nearly 75 members of Citizens SOS attended the council meeting to ensure that their measure made it on the ballot. The council must have been on the same page as their constituents. Not only did the citizens' issue pass, but also the

council rejected three of the mayor's four proposals related to the sewer lease. Several council members questioned the mayor's intentions behind proposing four separate charter changes on the same issue. "It is disheartening to see purposeful action like this meant to confuse the voters," said council member Michael Williams.<sup>17</sup>

"It was political trickery," said Sombati, adding that the mayor's lease proposal itself "would never have been on the ballot if not for the citizens' issue. ... He had 10 of 13 council members on his side. All he had to do is get the city council to pass it." Citizens SOS forced the mayor to take his plan to the people.<sup>18</sup>

With the mayor's plan on the ballot, Citizens SOS jumped into the second phase of their campaign: to educate the public.

"We ran a hell of a campaign," said Sombati. "Billboards, television and radio ads, literature drops, debates. We covered parades and events. We took out newspaper advertisements, wrote letters to the editors, gave interviews with the press."<sup>19</sup>

"We used Food & Water Watch's reports and letters, written especially for us, and personal visits of its organizers

and executive director to help educate voters on the pitfalls of privatization," Coleridge said.<sup>20</sup>

All of it was necessary. The community was facing an uphill battle against a well-financed and aggressive counter-campaign by the mayor and his supporters. "The mayor has a patented negative attack on those who disagree with him," said Sombati. "He started off his campaign that way." The mayor called Citizens SOS everything from "naysayers" to "corrupt labor leaders" to "liars," according to Sombati.<sup>21</sup>

"He pulled out all the stops," said Coleridge. "He got the local McDonald's franchise to not only have information inside their outlets but also a recorded message from the mayor touting his plan came on when you pulled up at the drive-through to place your order." Plusquellic even got NBA star and former Akron resident LeBron James to make robocalls asking people to support the scholarship scheme. The school board, too, came out against the citizens' initiative. "It was mind-boggling," said Coleridge.<sup>22</sup>

The local media was no better. "We fought an unprecedented campaign against the local newspaper," said Sombati.<sup>23</sup> Leading up to the election, the *Akron Beacon Journal* ran a series of eight editorials — called "8 reasons to vote for issue 8" — in favor of the mayor's plan.<sup>24</sup>

Citizens SOS merely countered with the truth, and when Election Day finally came, residents were well informed. They overwhelmingly voted down the mayor's privatization plan and approved the citizens' issue by a margin of 2 to 1.<sup>25</sup>

Plusquellic was unhappy. He responded to his loss by going on air on a Cleveland television station and declaring, "There will be a special place in hell reserved for those people who went out and misled the voters of Akron."<sup>26</sup>

"It was outrageous," said Sombati. "He owes the citizens of Akron an apology." He suggested that during this address the mayor wear "his jester hat that he wore at one press conference, calling us jokers."<sup>27</sup>

Citizens SOS knew the mayor's fondness for McDonald's, one of the companies that supported his privatization scheme. "To make him feel better," said Coleridge, "we sent him a happy meal with a note that said, 'There's a place in heaven for people who come together to work for scholarships without leasing public assets.'"<sup>28</sup>

Sombati and Coleridge believe that the mayor will not let the issue drop. "He's a sore loser," Sombati said. "Always has been since he was a football player in high school."<sup>29</sup> Citizens SOS is preparing for the next round. "He may come back to voters with another version of his privatization



scheme,” Coleridge said. “We’re going to be vigilant about this. ... We’re going to continue to educate and organize.”<sup>30</sup>

Plusquellic was not alone in his misguided quest for easy money. Shortly before Akron rejected privatization, the comptroller of Milwaukee suggested leasing its water utility to a corporation for 75 to 99 years in exchange for a one-time cash infusion to help fund city operations.<sup>31</sup> It remains to be seen whether the idea will go any further in Milwaukee than it did in Akron.

As the credit crisis sends shock waves through municipal and state budgets, public officials are increasingly falling under the spell of privateers and their promises of private finance. Cities and towns across the country — from Portland, Maine, to Portland, Ore. — should be on the alert for potential privatization plots sneaking through during the funding crunch.

Now more than ever, communities need competent officials who can make sound decisions about their water resources.

## The Price of Privatization: “Taxing Through the Tap”

More than a decade before Akron residents shot down sewer privatization, New Jersey State Senator Leonard Connors offered several harsh words to mayors who leased out their water systems, as Plusquellic sought to do. “The company getting the lease and leasing the water supply would naturally put the concession money in the rates,” he said, “so some grubby mayor — and I am a mayor (of Surf City), so I can say this — could balance the budget on the lease. It was basically taxing through the tap.”<sup>32</sup>

Indeed, like any get-rich-quick scheme, cash advances for water assets and contracts will end up costing communities a lot more than promised. If Akron had leased its sewers, taxpayers would have had to pay back the upfront fee plus the corporate profits through their sewer bills. If the mayor wanted to fund the scholarship program off the backs of residents, he may as well have increased taxes and cut out the profit margin.

Experts agree that leases are bad policy. According to researchers from the Office of the Inspector General of Massachusetts, “Using privatization to generate short-term government revenue generally produces a transfer of costs to future taxpayers rather than any real savings.”<sup>33</sup>

Even many pro-privatization ideologues have condemned these types of deals. Adrian Moore of the Reason Public Policy Institute, a libertarian think-tank known for exalting privatization, said that leases invariably lead to rate hikes

because of “current policy-makers’ desire for a pot of unencumbered dollars to spend as they will.”<sup>34</sup>

The water barons, themselves, will admit that selling public systems leads to rate hikes. An economic analysis by the manager of corporate development for Professional Services Group<sup>35</sup> found that the sale of a wastewater system would be an “economic disadvantage for a municipality if the interest rate on the existing municipal debt is 8 percent or less.” What’s more, if the selling municipality wants a substantial cash-out, it should expect little or no savings and even a rate hike.<sup>36</sup>

For many communities, frequent and massive rate increases are the most tangible consequence of privatization. Residents in North Brunswick, N.J., became outraged when rates skyrocketed immediately after United Water took over their water and sewer systems. Fairbanks, Alaska, too experienced a string of rate hikes after selling off their water and sewer systems.

Because of the efforts of Citizens SOS, Akron recognized the peril in losing control over vital public resources. “These companies come into these communities not to provide a public service but to make a buck and to maximize making a buck,” Coleridge had warned. “They do that by either increasing income or cutting service or both.”<sup>37</sup>

High rates are the standard of private water. A survey of the rates charged in more than 20 states shows a strong trend: Companies charge much more than municipalities do for both water and wastewater. For water, the difference is anywhere from 4 percent in Alaska<sup>38</sup> to 57 percent in Delaware. In Delaware, water bills from investor owned utilities are an astonishing 80 percent higher than municipal bills (see table 1 and figure 1).<sup>39</sup>

For sewer service, Texas American Water charges twice as much as the typical Texan municipality (see table 2 and figure 2).<sup>40,41</sup> Only in West Virginia did private wastewater utilities charge less than municipal utilities,<sup>42</sup> but this exception could be attributed to the lack of large investor-owned sewer corporations in the state. On the contrary, West Virginia does have large water companies, and on average, private utilities charge 14 percent more than municipalities.<sup>43</sup>

The research shows that, in general, public utilities are doing a far better job of keeping rates affordable for families.

Table 1. State-by-State Comparison of Public and Private Water Bills<sup>44</sup>

State(s)	Typical Annual Bill		Difference	Percent Increase with Private Control
	Municipal	Private		
Alaska	\$441.84	\$458.79 <sup>45</sup>	\$16.95	4%
Arizona	\$225.00	\$329.40 <sup>46</sup>	\$104.40	46%
Arkansas	\$273.83	\$344.68 <sup>47</sup>	\$70.85	26%
California	\$415.86	\$500.42 <sup>48</sup>	\$84.56	20%
Connecticut	\$300.72	\$398.13 <sup>49</sup>	\$97.41	32%
Delaware	\$186.60	\$336.60 <sup>50</sup>	\$150.00	80%
Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin	\$280.44	\$318.72 <sup>51</sup>	\$38.28	14%
Indiana	\$221.74	\$322.37 <sup>52</sup>	\$100.63	45%
Kentucky	\$316.07	\$361.21 <sup>53</sup>	\$45.14	14%
Maine	\$331.31	\$362.81 <sup>54</sup>	\$31.50	10%
Massachusetts	\$357.00	\$481.00 <sup>55</sup>	\$124.00	35%
New Hampshire	\$411.70	\$582.00 <sup>56</sup>	\$170.30	41%
New Jersey	\$258.00	\$318.00 <sup>57</sup>	\$60.00	23%
New Mexico	\$259.80	\$287.04 <sup>58</sup>	\$27.24	10%
North Carolina	\$272.37 <sup>59</sup>	\$350.63 <sup>60</sup>	\$78.26	29%
Ohio	\$408.00	\$478.00	\$70.00	17%
Pennsylvania, New Jersey, Maryland	\$214.80	\$336.60 <sup>61</sup>	\$121.80	57%
Texas	\$307.00 <sup>62</sup>	\$439.80 <sup>63</sup>	\$132.80	43%
Utah	\$307.23	\$359.05 <sup>64</sup>	\$51.82	17%
West Virginia	\$340.06	\$387.44 <sup>65</sup>	\$47.38	14%
Wisconsin	\$216.05	\$317.03 <sup>66</sup>	\$100.98	47%
Wyoming	\$261.83	\$343.00 <sup>67</sup>	\$81.17	31%

See Appendix A for methodology

Figure 1: Comparison of Household Water Bills of Private and Public Utilities, by State

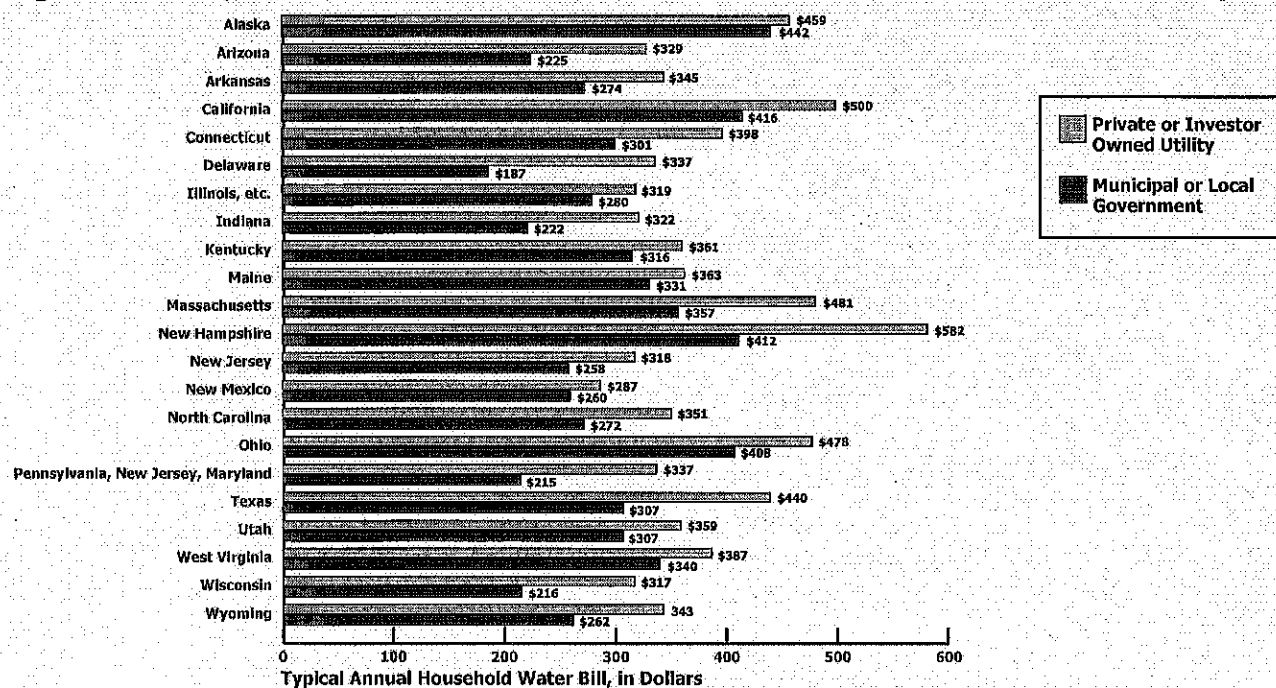
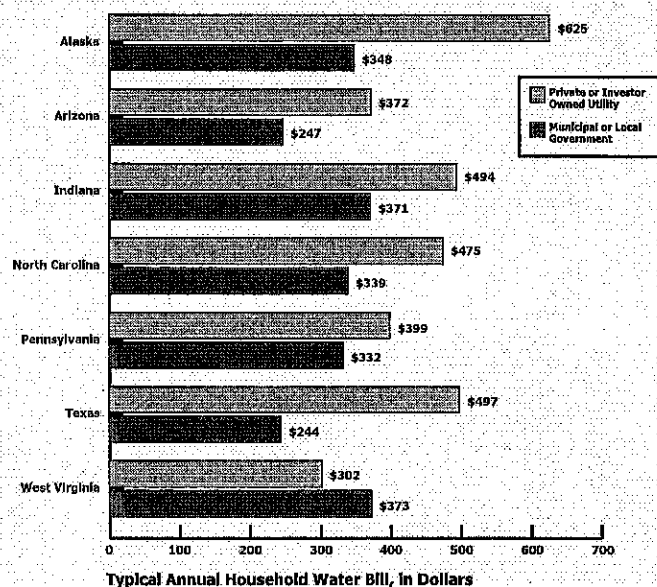


Table 2. State-by-State Comparison of Public and Private Sewer Bills<sup>68</sup>

State	Typical Annual Bill			Percent Increase with Private Control
	Municipal	Private	Difference	
Alaska	\$348.00	\$625.13 <sup>69</sup>	\$277.13	80%
Arizona	\$247.32	\$371.52 <sup>70</sup>	\$124.20	50%
Indiana	\$371.16	\$493.56 <sup>71</sup>	\$122.40	33%
North Carolina	\$338.54 <sup>72</sup>	\$475.44 <sup>73</sup>	\$136.90	40%
Pennsylvania	\$331.71	\$398.65 <sup>74</sup>	\$66.94	20%
Texas	\$243.59 <sup>75</sup>	\$497.40 <sup>76</sup>	\$253.81	104%
West Virginia	\$372.79	\$302.26 <sup>77</sup>	-\$70.53	-19%

See Appendix A for methodology

Figure 2: Comparison of Household Sewer Bills of Private and Public Utilities, by State



*In Delaware, water bills from investor-owned utilities are an astonishing 80 percent higher than municipal bills*

## The Myth of Private Sector Efficiency

Despite the high price of private service, many ideologues continue to argue that privatization will increase efficiency. "Private operators can achieve greater efficiency and scale in their cost of capital improvement," contended Akron's Mayor Plusquellic and his supporters on a website promoting the ill-fated sewer privatization scheme.<sup>78</sup>

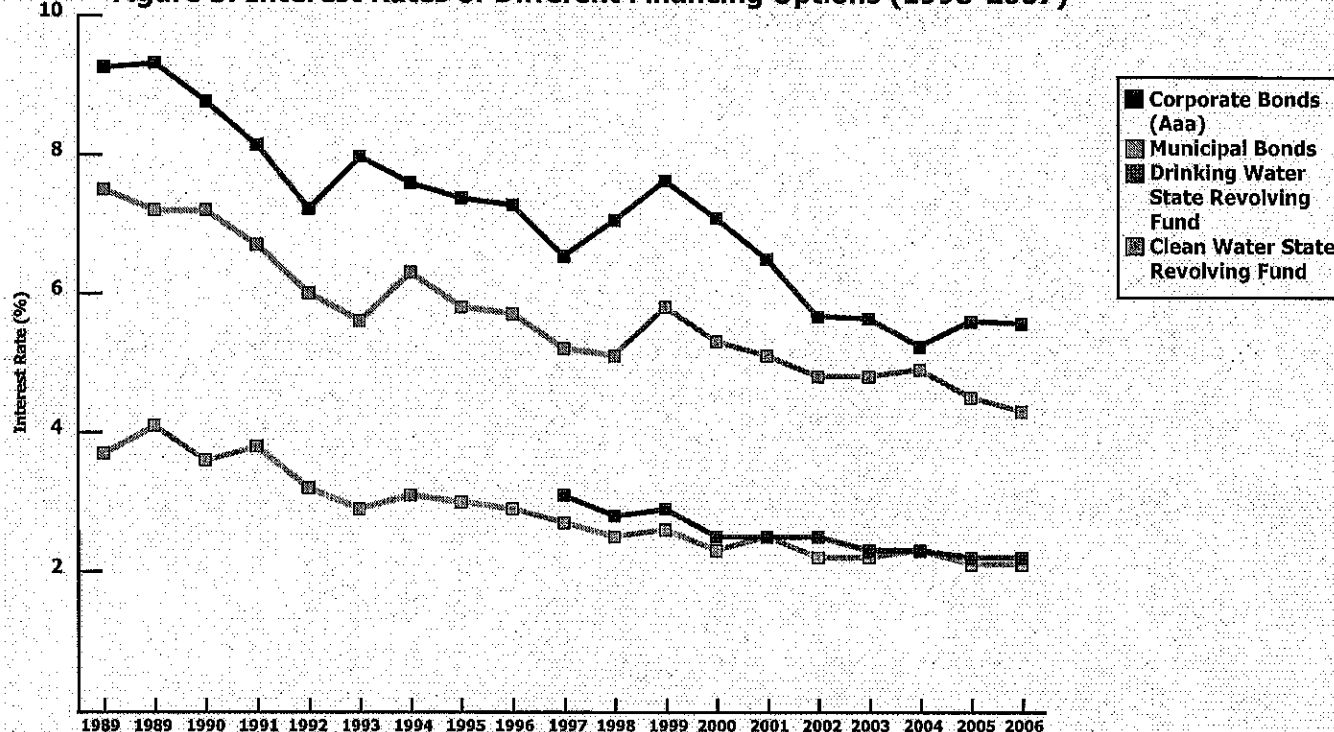
The argument was enough to make Jack Sombati laugh: "It doesn't show that in many examples across the country," where corporations "didn't handle emergency calls, there were maintenance backlogs, they didn't respond to water breaks quickly and there was a lack of service."<sup>79</sup>

Greg Coleridge, too, countered the mayor's claim. "How do we define efficient?" he asked. "Does it mean to make money? Or does it mean to provide the best service? It depends on your definition of efficiency. To me, efficiency comes down to getting the best deal for the people." Public utilities are the most efficient, he reasoned, because they are more accountable, transparent and responsive to the public.<sup>80</sup>

Municipalities have no reason to expect that privatization would save them money. At best, the results are mixed. Public officials must look through the smoke and mirrors of corporate propaganda and recognize that there is no compelling evidence that privatization increases efficiency.

Germa Bel of the University of Barcelona and Mildred Warner of Cornell University reviewed all econometric studies of efficiency and productivity for water distribution and waste collection from 1965 to 2006. They concluded that "private production is not cheaper."<sup>81</sup> The researchers said that their findings indicate the failure of standard theories to account for what really happens: "That private production has failed to deliver consistent and sustained cost savings shows the inadequacy of theoretical approaches based mainly on assumptions about competition and ownership."<sup>82</sup>



**Figure 3: Interest Rates of Different Financing Options (1998-2007)**

**Note:** Municipal Bonds are the market rate based on the Bond Buyer Index for 20-year general obligation bonds with a rating equivalent to Moody's Aa and Standard & Poor's AA-minus. Corporate bonds are the market rate based on the Federal Reserve Statistical Release for Moody's seasoned Aaa.

Steven Renzetti and Diane Dupont from Brock University in Canada arrived at similar conclusions when they reviewed 20 studies, including 13 examined by Bel and Warner, to investigate how ownership affects the performance of water utilities. The researchers said, "The paper has also demonstrated the empirical literature is lacking in conclusive evidence that privately owned water utilities are more efficient than comparable publicly owned water utilities."<sup>83</sup>

For wastewater system construction, privatization often means paying an unnecessary premium. A study of the construction of 35 wastewater treatment plants found that "privatization is associated with higher costs in wastewater treatment," and that "choosing the privatization option is more costly than going with the traditional municipally owned and operated facility."<sup>84</sup>

Lynn, Mass., found this out the hard way. Privatization left the city with a hefty bill after a Veolia subsidiary inflated the construction costs of improvements to the city's sewer system. The state inspector general's office issued a report condemning the privatization, saying that the city failed to protect the city's residents from a bad deal.

Indeed, *cost savings*, the catchphrase of privatization, stings of irony in cities and towns across the country.

## The Financing of Last Resort: How Privatization Can Increase Costs

Why does privatization often cost more money, and why do private utilities charge higher rates? Many factors increase the cost and price of private water and sewer service. Below is a detailed outline of several of these aspects. Public officials should consider every relevant cost before privatizing in order to protect their communities from a bad deal.

*Public utilities are the most efficient because they are more accountable, transparent and responsive to the public.*

## Expensive Financing Costs

Privatization is no solution to tight budgets. Private financing is more expensive than public financing (see figure 3). Taxes on corporate bonds and restrictions on federal and state funding drive up the cost of private capital.

**Bonds.** Even the best-rated corporate bonds are 25 percent more expensive than municipal bonds. Over the 10-year period from October 1998 to October 2008, a 20-year general obligation municipal bond carried an average interest rate of 4.87 percent, while Moody's rated Aaa corporate bonds carried an average interest rate of 6.17 percent.<sup>85</sup>

Municipal bonds are exempt from federal and state taxes in at least 40 states.<sup>86</sup> Except for the few tax-exempt private activity bonds, corporate bonds are taxed. For municipalities, tax-exempt status decreases their interest payments and lowers the cost of debt. People who invest in municipal bonds do not have to pay taxes on the earned interest, so they can put their money in municipal bonds that carry lower interest rates than corporate bonds have while earning the same amount of money after tax. When a system is privatized, any outstanding tax-exempt debt becomes taxable unless the contract falls under specific parameters.<sup>87</sup>

**Loans.** Many federal loans and grants are available only to public entities. For example, private utilities are ineligible for Clean Water State Revolving Fund loans in every state, and the Drinking Water State Revolving Fund loans in 12 states.<sup>88</sup> State Revolving Fund loans cut financing costs because of their low interest rate.

The best-rated corporate bonds are 2.5 times as expensive as State Revolving Fund loans. Since EPA fully implemented the Clean Water State Revolving Fund in 1989, its loans have carried an average interest rate of 2.83 percent<sup>89</sup> — 60 percent less than the 7.12 percent average interest rate of Moody's rated Aaa corporate bonds.<sup>90</sup> Since EPA fully implemented the Drinking Water State Revolving Fund in 1998, it has carried an average interest rate of 2.53 percent<sup>91</sup> — nearly 60 percent less than the 6.24 percent average interest rate of Moody's rated Aaa corporate bonds over that period.<sup>92,93</sup>

Akron residents were smart to recognize the cost of privatization when they voted down the mayor's proposal. Mayor Plusquellic had hoped to lease the sewers in exchange for a multi-million dollar upfront payment — all of which the citizens would have had to pay back over the term of the deal. Plus, not all of the lease would have been used to fund the scholarship program. Of the expected \$250 million maximum windfall from the lease, \$73.1 million would have gone to repay the system's outstanding debt,<sup>94</sup> while the city would have had to cough up another \$5 million to transfer



Citizens in Lexington, Kentucky, attempt to regain control of their water after it was purchased by RWE in 2002.

its sewer workers to other posts.<sup>95</sup> After those reductions, the city would have been left with less than 70 percent of the original fee.

William Barnhardt, the editor and publisher of *Public Works Financing*, said that selling bonds could be a cheaper way for Akron to raise money, and it would allow the city to retain control over its sewers.<sup>96</sup>

"Financial pressures often make privatization the least attractive option," according to an article in *the Journal of Infrastructure Finance*. It calls privatization the "financing of last resort."<sup>97</sup>

According to Marie Fioramonti, then a senior vice president at investment firm Prudential Capital Group: "It's tough for anyone to take [privatization] on without a burning ideological desire unless there are fiscal demands that make it a necessity."<sup>98</sup>

Unfunded federal mandates, the infrastructure-funding crisis and corporate lobbying collide to force cash-strapped communities into deals that compromise the public's best interest. If municipalities have other options, they shouldn't even consider it.

And municipalities almost always have other options to finance improvement projects. Dire straits are no excuse for privatization, which only further drives down the community's economic well-being. Selling off these valuable public resources leaves communities with a host of problems.

## Profits and Taxes

Private utilities usually pay income, property and other taxes, whereas government utilities pay no local or state property taxes.<sup>99</sup> Corporations also typically seek at least a 10 percent profit on their investment. In total, corporate profits, dividends and income taxes add 20 to 30 percent to operation and maintenance costs.<sup>100</sup>

*Incentive for inefficiency.* What's more, profit motive can further drive up these added costs, since private utilities have an incentive for inefficiency. In most states, a utility commission regulates the pricing of private water and sewer utilities. These commissions allow the corporations to earn a rate of return on investment, so that the more they invest in a system, the more profit they take home. In this way, private utilities have a strong financial incentive to drive up system costs and overbuild water-related infrastructure.<sup>101</sup>

From coast to coast, public officials and researchers have seen this incentive play out. According to the University of North Carolina Environmental Finance Center, "The ability of for-profit companies to receive a return on the funds that they have invested in capital provides a clear financial incentive for capital investment that does not exist for many of their public counterparts."<sup>102</sup>

"The only way they make a profit is on investment," said Fred Curry, the water branch manager at the California Public Utilities Commission. "What I am seeing is costs for private companies increasing faster than the costs of public ones."<sup>103</sup>

## Environmental Damage

Because of profit motive, privatization can hurt not only consumers' pocketbooks but also their environment.

*Environmentally damaging practices.* Private utilities often avoid water conservation measures, which reduce the amount of water used and wasted, and green infrastructure, including the use of greenways to help mitigate storm water runoff. Although these efforts would help make current water supplies clean and sustainable while keeping costs down for communities, they do little for private profits. With eyes focused on the bottom line, corporations may opt for the more expensive and environmentally damaging projects like desalination and other large treatment plants.

*Risk aversion and sewage spills.* Mayors, beware: Privatization usually fails to transfer risk. When private operators violate environmental regulations, they successfully deflect blame by arguing that the municipality retains responsibility for regulatory compliance. Corporations stick the public with fines and penalties.

Risk aversion is a common trick of profit-driven corporations, according to a review of major North American public-private partnerships. "Profit-making private sector entities, whether they are construction firms, operating entities or whatever, are adept at ensuring that they are fully compensated for risk taking." In fact, the study found, "Private sector participants frequently go to considerable lengths to avoid risk..." Private entities have even threatened or declared bankruptcy to avoid large losses.<sup>104</sup>

In Burlingame and Richmond, Calif., Veolia-operated treatment plants purportedly spilled so much sewage water in the San Francisco Bay that the cities were sued and had to agree to multimillion-dollar upgrades. The corporation didn't pick up the tab.

## Poor Service

Governments should consider more than just efficiency and costs when making decisions about the operation of water and sewer utilities. Their decisions must include service quality. Why would a city pay — even a low price — for something that is ineffective or fails to meet its needs?

Corporations cut corners to pad stockholder profits, leaving the public with unsafe drinking water, sewage spills and a host of other problems. Here are common ways this happens:





**Cutting corners.** Cities across the nation can speak to privatization failing to yield promised savings. When corporations have cut costs, they've done so by using shoddy construction materials, rolling back worker benefits and downsizing the workforce. Cutting the number of employees also affects the quality of service and can lead to backlogs of maintenance requests and customer orders.

After United Water downsized the workforce in Gary, Ind., poor service plagued the city. Collapsed sewer lines created sinkholes, and overflowing sewers poured contaminated water into streets, ditches and basements.

**Neglect and high capital costs.** In many contracts, the private operator is responsible only for routine maintenance, while the public retains responsibility for large capital expenses. The private operator has an incentive to forgo preventative repairs, leading to higher capital costs and user rates.<sup>105</sup>

Such neglect impairs service, hastens equipment breakdowns and increases replacement expenses, but the company would not have cared since it wasn't responsible for those costs. In many cases, companies technically comply with their contract terms while effectively shifting upkeep costs to the public.<sup>106</sup>

In Akron, the mayor planned for the city to retain responsibility over big projects specifically to make the lease more attractive to corporations. The mayor also proposed capping the rates that fund only operation and maintenance,

not capital improvements.<sup>107</sup> As Jack Sombati of Citizens SOS said, "Rates would increase to cover that."<sup>108</sup>

With its revenues effectively capped, the corporation would cut corners and drive down costs to pad its stockholders' pockets. As a result, Akron would have seen its capital costs grow as neglected maintenance and poor upkeep gradually wore out the system. Sadly, the public would have had to pay the price for corporate dereliction of duty.

In Lee County, Fla., which canceled its contract with British Severn Trent, officials said it would take years and millions of dollars to restore the run-down water system.

## **Limited Competition and Consolidation**

The growing deficit of competition for contracts only adds to contract costs. Economist Dick Netzer emphasized that any benefit from privatization is dependent on competition. "There is absolutely no advantage in replacing a public monopoly with a private monopoly," he said. "What you are really after is competition."<sup>109</sup>

Germa Bel of the University of Barcelona and Mildred Warner of Cornell University also expressed this sentiment: "Cost savings should not be expected from privatization without competition." The water market, however, is "rarely competitive" and the little competition there is faces "increasing difficulties," including consolidation and incumbency, according to the researchers.<sup>110</sup>

Continued consolidation of the water industry is further restricting competition in an already concentrated market for water service.<sup>111</sup> According to Fitch Ratings, the huge cost of repairing the nation's aging water infrastructure could lead to even greater consolidation of water utilities as corporations merge for greater access to capital to finance improvement projects.<sup>112</sup> Meanwhile, diminishing competition leaves the public with bad and expensive contracts.

## **High Transaction Costs**

The Government Finance Officers Association estimated that expenditures for contract monitoring and administration, conversion costs, charges for extra work and the contractor's use of public equipment and facilities can add up to 25 percent to the price of a contract.<sup>113</sup>

**Contract preparation.** Municipalities have to pay lawyers and staff or consultants to conduct feasibility studies, prepare the contract, solicit bids, review proposals and negotiate the contract. While costs vary depending on the size and

complexity of the agreement, legal and technical support can easily set a city back \$75,000 to \$100,000.<sup>114</sup>

*Conversion.* Public employees frequently lose their jobs because of privatization. In these cases, municipalities may have to pick up the tab for severance pay, early retirement and staff retraining if workers relocate to another government job. The corporation may also hike water rates to pay for training new utility workers. Meanwhile, the loss of skilled employees causes service problems.

In certain contracts, the private contractor takes over equipment and property. The municipality could have to pay penalties for early cancellation of leases, and it could book losses on the sale of vehicles and equipment.

*Monitoring.* Monitoring costs alone can be as much as 20 percent of the total costs of a contract.<sup>115</sup> Municipalities have to pay for staff time to ensure contract compliance and to monitor the corporation's performance. Contract oversight, monitoring and management typically costs 2 to 4 percent of the contract's value.<sup>116</sup> The Environmental Protection Agency has said, "... regulation itself is costly and results in higher tariff levels."<sup>117</sup>

Because the public owner is ultimately responsible for compliance with local, state and federal laws, municipalities may have to keep trained staff in-house in case the contractor performs poorly and compromises environmental and human health.<sup>118</sup>

*Change orders and cost overruns.* Municipalities can also experience unexpected costs if private operators change orders and inflate costs after a deal is signed.<sup>119</sup> Jack Sombati, of Citizens SOS, drew on his experiences with privatization around the country and issued strong words of warning about what could have happened had Akron privatized its sewers. "Basically, in my opinion, the city would be held at economic blackmail," he said. "The company would demand millions more than it originally quoted."<sup>120</sup> Akron would have had to pay the company cost overruns for improvements or face incomplete projects, sewage spills and EPA penalties.

Partly because of this, one study of public-private partnerships in the United States and Canada found that privatization is often "prone to conflict, high contracting costs, opportunism and failure."<sup>121</sup>

*Termination fees.* Meanwhile, if a municipality does want out of a contract, it usually has to pay a termination fee to the corporation. Most contracts penalize municipalities for exiting a contract early unless certain pre-established conditions are met.

## Lost Public Benefits

Municipal operation can have several benefits that extend beyond traditional water service. Cities would lose these perks if they privatize.

*Liability.* While most municipal systems are self-insured and immune from tort liability, private operators need to pay for liability insurance.<sup>122</sup>

*Government entrepreneurship.* With privatization, municipalities could lose several revenue sources, including income from selling biosolids and wastewater effluent.<sup>123</sup>

*Intra-government coordination.* Water and sewer utilities often assist other government departments and pool resources. For example, cities can use wastewater department trucks for snow removal or other government tasks, and water department employees can help with emergency preparations for hurricanes. Private contractors and utilities would be less inclined to share equipment and worker hours.<sup>124</sup>

*Inter-government coordination.* Corporations also have no particular responsibility to cooperate with government agencies to protect water resources, manage watersheds and work for long-term sustainability.<sup>125</sup>

*Economies of scale and scope.* Privatization can eat into savings that municipalities might realize through economies of scope and scale. For instance, it could add redundant payroll and equipment.<sup>126</sup>

*"The only way they make a profit is on investment. What I am seeing is costs for private companies increasing faster than the costs of public ones." – Fred Curry, California Public Utilities Commission*

## Accountability

Water corporations are primarily accountable to their stockholders, not to the people they serve. Concerns about accountability prompted Coleridge to help form Citizens SOS to stop the lease of Akron's sewers. "Power is usurped to whatever company that comes in and people are relegated to the position of the consumer," warned Coleridge. "People lose their political power."<sup>127</sup>

Here are two often-overlooked consequences of unaccountable water utilities:

*Cherry picking service areas.* Unlike municipalities, private utilities also are prone to cherry picking service areas. Privately owned utilities typically avoid expanding services to low-income neighborhoods where low water use and frequent bill collection problems drive down corporate profits.<sup>128</sup>

*Economic mobility.* A study found that privatization can impair economic mobility: "Because public services are labor intensive, many of the savings from privatization are due to reductions in wages and benefits to labor, often resulting in the loss of primary sector job ladders for women and minorities."<sup>129</sup>

## Privatization Is Irresponsible

Weak public officials use the private sector to dodge their responsibilities. Instead of being strong leaders, they cave into corporate lobbyists and try to redirect public concerns to an outside target. They seek a platform and an ersatz moral high ground to join with the public in criticizing rates and service.

### Figures That Count

- Compared with municipalities, private utilities charge as much as **80 percent** more for water and as much as **100 percent** more for sewer service (see figures 1 and 2).
- Corporate profits, dividends and income taxes add **20 to 30 percent** to operation and maintenance costs.
- Contracting costs can add up to **25 percent** to the price of a contract.
- Even the best-rated corporate bonds are **25 percent** more expensive than municipal bonds, and **2.5 times** costlier than State Revolving Fund loans (see figure 3).

*Water corporations are primarily accountable to their stockholders, not to the people they serve.*

Indeed, privatization is a tool of unresponsive governments. Empirical data of U.S. contracting behavior showed that privatization occurs more often in municipalities that pay less attention to their citizens. Municipalities with greater attention to citizen voice privatize new services less frequently. In fact, public takeovers are a response to increased attention to public concerns.<sup>130</sup>

Through privatization, officials think they can transfer responsibility onto a private sector contractor. Not only is this assumption demonstrably false, but it also is bad policy.

Privatization indicates a failure of governance.

## Case Studies I: The High Cost of Privatization

Communities across the country have paid the price for privatization. When their elected leaders transfer control over vital water resources to unaccountable operators, residents had to foot the bill and endure the neglect. Many cities and towns have seen costs skyrocket after privatization by as much as 89 percent (see table 3).

With revenue flowing to corporate coffers, it is unsurprising that vital system improvements would fall by the wayside. High rates, poor service, environmental damage, corruption and scandal plague these communities. (See Appendix B for profiles of the big water corporations in the United States.)

### *Inflated Costs in Lynn, Mass.*

When Lynn, Mass., needed to improve its combined sewer system and stop sewage overflows, the city thought it could take an easy way out by privatizing the endeavor. But rather than smooth sailing, Lynn quickly found itself in treacherous waters.

In 2004, five years into the 20-year, \$48 million deal, the city had to take back the project after discovering that the

**Table 3. Comparing the Costs of Public and Private Service<sup>131</sup>**

City	Corporation	Type	Contract		Public Costs	Private Costs	Difference	Percent Increase
			Year	Term				
Lynn, Mass. <sup>132</sup>	U.S. Filter	Combined sewer separation (construction)	1999	20	\$24.9 million	\$47.2 million	\$22.3 million	89%
New Orleans <sup>133</sup>	U.S. Filter proposed	Water and sewer system	2002	20	\$42.8 million	\$43.2 million	\$300,000	1%
New Orleans <sup>134</sup>	United Water proposed	Water and sewer system	2002	20	\$42.8 million	\$48.9 million	\$6.1 million	14%
Stockton, Calif. <sup>135</sup>	OMI-Thames	Water and sewer system	2003	20	\$291.5 million	\$293.2 million	\$1.7 million	1% <sup>136</sup>
Petaluma, Calif. <sup>137</sup>	Veolia	Water recycling facility	2007	Not awarded	\$7.8 million	\$9.4 million	\$1.6 million	20% (3 years)
Fairfield-Suisun, Calif. <sup>138</sup>	Aquarion (later acquired by United Water)	Wastewater system	2004	5	\$6.7 million	\$7.0 million to \$7.7 million	\$300,000 to \$1.0 million	4% to 14% (annual)
Houston <sup>139</sup>	Azurix (later acquired by American Water)	Water treatment plant	2001	More than 5 years	\$10 million	\$12 million	\$2 million	20% (annual)
Houston <sup>140</sup>	Montgomery Watson, Inc. (later became MWH Constructors)	Water treatment plant	2001	10	\$9.2 million	\$10 million	\$800,000	9% (first year)

water corporation's required \$15 million letter of credit expired in 2001.<sup>141</sup>

The ordeal began on flimsy grounds. Only two companies responded to the city's request for proposals, and both were subsidiaries of the same French multinational — Vivendi, whose environmental services division later became Veolia, the largest water and wastewater corporation in the world. Despite the lack of meaningful competition, the city transferred control to Vivendi-subsidary U.S. Filter.<sup>142</sup>

The city had little wiggle room to negotiate a good deal. It got stuck with a weak contract that forced the city to bear the risks of any sewer overflows and flooding resulting from U.S. Filter's design.<sup>143</sup> The contract, in fact, limited U.S. Filter's liability for defective work and false representations.<sup>144</sup>

In 1997, two years before the city handed over the sewers, a city-commissioned report advised against using a long-term contract for the project.<sup>145</sup> Nevertheless, when the 20-year deal came to a vote, the mayor said, "I'm the Mayor of the city, and I want to make this simple for you. Anybody who votes against this ought to be run out of town on a rake ..." <sup>146</sup>

This very mayor who facilitated the privatization chaired the Urban Water Council (now called the Mayors Water Council) for the U.S. Conference of Mayors. He admitted that during this stint he interacted with many water corporations,<sup>147</sup> including the eventual beneficiary of the privatization.

The city said that the deal would save \$400 million — a claim that its own engineering consultant refuted.<sup>148</sup> The state inspector general contested the claimed savings. His investigation found that the city's private consultants used a flawed method to compare different design approaches, adding, "This absurd cost comparison has been used as a smokescreen to divert attention from the unreasonably high price for U.S. Filter's proposed work."<sup>149</sup>

The city paid a hefty premium to have U.S. Filter separate its sewers. The company's price was nearly twice that of comparable work on projects under city management. Privatization set the city back an astonishing \$22 million and brought the total cost to \$47 million.<sup>150</sup>

At the same time, the city allowed the company to cut costs by downsizing staff by as much as 20 percent, but the inspector general found that "the savings will translate to increased profits for U.S. Filter rather than lower rates for ratepayers."<sup>151</sup>

The inspector general concluded that despite paying more than \$3 million to privatization consultants, Lynn's leaders failed to protect "the ratepayers from a bad deal."<sup>152</sup>

### ***Years to Repair Privatization's Damage in Lee County, Fla.***

Lee County, Fla., had to pick up a multi-million dollar bill to repair the damages of privatization.



In 1995, British multinational Severn Trent won a 5-year, \$27 million contract to operate and maintain Lee County's water and sewer systems.<sup>153</sup> By 2000, the county knew better than to keep that flimsy deal. Engineers estimated that it would take more than \$8 million to restore under- and improperly maintained systems to the condition that they were in prior to privatization.<sup>154</sup>

Severn Trent had an incentive to forgo maintenance expenses resulting in escalating capital repair costs. The neglect could have cost the community hundreds of thousands of dollars, according to an audit by the county clerk. The audit further censured the privatization, saying, "Ineffective or untimely preventive maintenance will cause a more rapid breakdown of infrastructure and additional repair costs, resulting in an increase in future expenditures."<sup>155</sup>

What's more, the county had grossly overestimated cost savings. While pushing forward the privatization effort, Lee County manager Don Stilwell claimed that the contract would save taxpayers \$10 million. The county clerk's audit discovered that actual savings were less than half of that. The county derived its inflated figure from a faulty analysis that left out contract administration and overhead costs.<sup>156</sup>

Auditors said poor contract supervision brought the savings down even further. In one year alone, 1998, Severn Trent wrangled an extra \$3 million out of the county.<sup>157</sup> The

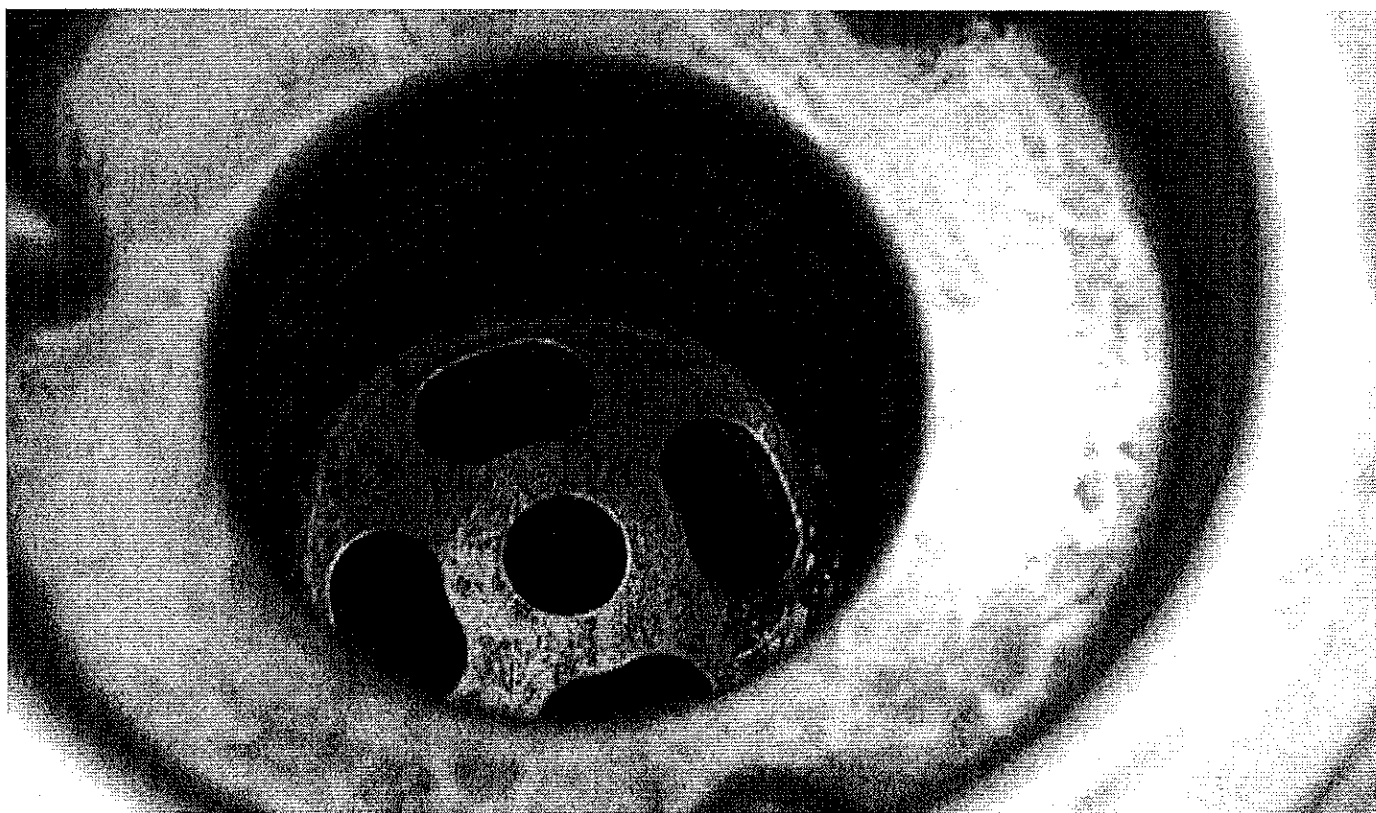
three top county managers lost their jobs in the wake of the county clerk's critical audits. The company denied many of the audits' findings.<sup>158</sup>

"There have just been too many problems and we lost control of that contract," said Doug St. Cerny, a county commissioner. "We saved some money but not nearly what we should have."<sup>159</sup>

By the end of it all, the city actually lost money on the deal. Plus, the company failed to do \$8 million worth of contracted work, which could have posed a threat to public health and the environment.<sup>160</sup> Because the company skimped on its duties, the county withheld \$3 million at the end of the contract. The corporation retaliated by suing the county for the money. It eventually settled in 2004 for a payment of \$770,000 plus accumulated interest.<sup>161</sup>

In October 2000, Lee County commissioners unanimously voted to bring the water and sewer systems back under public control and operation. Public operators promised to do a better job for possibly even less money. And they were going to use every bit of savings for operations and repairs that former operators should have addressed years ago.<sup>162</sup>

"I feel like the most adequate and cost-effective way to deal with a multitude of issues is to bring it back in-house," said Public Works director Jim Lavender.<sup>163</sup>





Amid all the scandal and criticism, Enron's subsidiary, Azurix, another corporation vying to operate the system, balked at the county's decision, calling it "reckless" and "unfair." Meanwhile, Severn Trent called it, "a grave mistake."<sup>164</sup>

All Severn Trent could do was sue its former employee, the whistle-blower, who spoke out and reported the company's neglect on the night the commissioners voted against keeping the company.<sup>165</sup> The case was settled in mediation before it could go to trial.<sup>166</sup>

The county learned its lesson and wasn't going to be fooled again. "We didn't meet expectations," said commissioner Cerny. "Privatization was a failure."<sup>167</sup>

### ***Waves of Regret in North Brunswick, N.J.***

North Brunswick came to regret privatizing its water and sewer systems.

In 1996, North Brunswick entered into a 20-year, \$23 million contract with U.S. Water, which was later acquired by United Water, a subsidiary of French multinational Suez, the second largest water and wastewater corporation in the world.<sup>168,169</sup> Over the term of the contract, the company agreed to pay the town a total of \$54 million, including \$6 million as an upfront fee, \$24 million in periodic payments and \$24 million in debt assumption.<sup>170</sup> While an upfront fee may sound nice to a cash-starved town, the residents were the ones who paid for it. The company made the fees up through rate hikes.

Residents quickly became outraged at skyrocketing water and sewer bills. Dozens of households spoke out against them. "Our bills used to be \$90 each quarter," said Debbie Calantoni, a resident of North Brunswick. "Now, we pay an average of \$230 each quarter. We paid about \$1,200 in 1998 for water and sewer. Our water isn't better and the service isn't better."<sup>171</sup>

Several households had seen their bills double or even triple. "It's become a model for the way not to do such deals," said Mayor David Spaulding, adding, "The people saw themselves getting screwed."<sup>172</sup>

Fed up, the town decided to exit the water portion of its contract and to buy out the remaining 14-year term at a cost of \$30 million.<sup>173</sup> As a last ditch effort, the company offered the town a 22 percent rate reduction in 2001. The ploy did not faze local leaders. "I don't know how they're going to pay for it," said North Brunswick council president Peggy Scarillo. "If you take from one, it's going to affect something else. Unless U.S. Water can tell it's coming out of their profit, that I wouldn't have a problem with."<sup>174</sup>

*"It's become a model for the way not to do such deals ... The people saw themselves getting screwed." – North Brunswick Mayor David Spaulding*

United Water retained the contract for the sewer system for a few more years.<sup>175</sup> By 2006, North Brunswick had learned its lesson on sewer privatization. The town council unanimously voted to terminate the wastewater system contract, agreeing to pay a \$400,000 termination fee. The town wanted to manage the system itself.<sup>176</sup>

### ***A Messy Situation in Burlingame, Calif.***

Although hailed as one of the best, Burlingame's privatization deal created a mess.

In 1972, Burlingame and U.S. Filter, which later became a subsidiary of Veolia, entered into the nation's first operation and management contract for a sewer treatment plant. Over the years, several of the country's biggest privatization proponents have lauded the set-up, awarding it the National Council for Public-Private Partnerships Award and the Outstanding Achievement Award from the U.S. Conference of Mayors.<sup>177</sup>

If Burlingame exemplifies the best of privatization, then people should really be wary. Veolia had been dumping sewage into the San Francisco Bay for years, alleged a 2008 lawsuit by the San Francisco Baykeeper, a nonprofit watchdog group committed to improving water quality. The suit charged that the Veolia-operated plant had illegally dumped more than 10 million gallons of wastewater into the San Francisco Bay over the preceding five years,<sup>178</sup> and failed to report violations.<sup>179</sup>

Burlingame already had initiated a 20-year, \$120 million improvement project to help mitigate spills. By the time of the lawsuit, the city and Veolia had completed nearly \$28 million of work, including \$10 million at the treatment plant, but the Baykeeper said that these improvements

failed to correct the problem.<sup>180</sup> The watchdog group believed that without court intervention, the city and Veolia would continue to violate the Clean Water Act.<sup>181</sup>

It took only half a year for the city to settle the lawsuit out of court. Burlingame agreed to make millions of dollars worth of improvements, including boosting the plant's treatment capacity.<sup>182</sup>

### ***Sewage-Flooded Homes in Richmond, Calif.***

In 2006, two years before Burlingame, Veolia found itself in a similar predicament in Richmond, Calif. The Baykeeper sued the city and Veolia for allegedly dumping more than 17 million gallons of sewage into tributaries that empty into the San Francisco Bay over the preceding three years. The watchdog said that Richmond had one of the highest spill rates in the state.<sup>183</sup>

Similar to Burlingame, Richmond had already initiated a capital improvement project at the time of the lawsuit. In 1999, years before the suit was filed, Richmond voters approved a \$20 million bond to pay for sewer repairs. Instead of immediately beginning the project, the city delayed and spent nearly three years privatizing its sewers.<sup>184</sup>

In 2002, the city gave the 20-year, \$70 million contract to Veolia, which promised to cut costs.<sup>185</sup> At the time, the city's employees warned that Veolia's projected costs were low only because the company failed to account for needed repairs. An outside consultant concluded the sewers needed \$18 million worth of upgrades — nearly three times the \$6.4 million included in Veolia's plan.<sup>186</sup>

Nevertheless, the city hired Veolia to develop and implement an improvement plan for the sewer and storm water systems. By the time of the lawsuit in 2006, the company had not even finished designing the plan, much less begun the renovations.<sup>187</sup>

Indeed, the city made a bad decision when it chose Veolia over its public operators, who wanted to purchase equipment to mitigate sewage overflows and improve wastewater treatment.<sup>188</sup> The Baykeeper filed its 2006 lawsuit against the city for failure to address those very concerns.

In less than a year, Richmond settled the lawsuit out of court by agreeing to pay for multimillion-dollar improvements to reduce sewer spills.<sup>189</sup>

This suit was not the only costly consequence of Veolia's poor operation. For years, Richmond taxpayers had to shell out \$500,000 annually to compensate other residents and businesses for property damaged by the sewer system. While the city budget was hit by this preventable



Water rights activists protest at the 3rd World Water Forum held in 2003 in Kyoto Japan. Photo by Maj Fil-Flynn.

expense, it was victims of the sewage overflows who paid the biggest price.<sup>190</sup>

One stark example puts Richmond to shame. In April 2005, a flood of 80 gallons of raw sewage forced Dorothy Nash, an 82-year-old retired nurse, out of her home and into a hotel for more than 10 months. Because of a clog in the main sewer line, feces, fluids and other waste poured from her toilet and bathtub, swamping her floors, destroying her possessions and damaging the structure of her home.<sup>191</sup>

Nash wanted to move back home, so she sued the city.<sup>192</sup> The city council awarded her \$160,000 for her losses.<sup>193</sup> The money, however, cannot begin to make up for the destruction of her family heirlooms and memories and for the trauma she suffered — panic attacks, insomnia and depression.<sup>194</sup>

Even after the lawsuits and settlements, the system didn't seem to be getting better. Veolia's Richmond plant had 22 spills, dumping more than 2 million gallons of sewage during the first two months of 2008.<sup>195</sup>

### ***Legal Battles, Disrepair and a Federal Investigation in Gary, Ind.***

Without citizen input during one of its 1998 meetings, the Gary Sanitary District board voted to privatize its wastewater system. At the end of the meeting, a dozen people who had watched the decision stood up to voice their dissent.<sup>196</sup> At a public hearing several days before, no one spoke out in favor of the proposal.<sup>197</sup>

The city council promptly sprang into action to fight the privatization. Within one month of the board's decision,

various council members had filed three separate lawsuits challenging the proposed privatization.<sup>198</sup> Although judges dismissed every case,<sup>199</sup> this upfront resistance serves as an omen to the monstrous problems yet to come.

One lawsuit was particularly telling of the tension, negativity and feelings of vulnerability surrounding the deal, which several people found to be a hostile affront to civil liberties. Council member Gardest Gillespie and two other council members sued the mayor and the attorney for the sanitary district. They accused them of having “racially discriminatory and other illegal reasons” for wanting to privatize the operation. The suit alleges that the privatization is “part of an ongoing scheme to replace African-American managers, professionals and contractors with persons of European ancestry.”<sup>200</sup>

Ignoring the legal controversy and the catcalls and derisive comments from a room full of residents, the sanitary board plowed ahead with the deal.<sup>201</sup> It gave the \$100 million, 10-year contract to a consortium led by United Water,<sup>202</sup> which has since bought out the other partners.<sup>203</sup> As part of the deal, the consortium paid the district \$10 million.<sup>204</sup>

A week after the board signed the deal, more than 100 community members rallied on the steps of city hall to voice their opposition to the privatization. “No private company should control the access of the community,” said one resident. “We demand a public referendum and be allowed to vote on the matter.” Six city council members, the former mayor, a state representative and other officials joined the protest.<sup>205</sup>

Nevertheless, the water board stood firm in its support of the privatization.



First on the company’s chopping block were the workers. The company tried to buy out the plant’s 119 employees, offering them lump sum payments in exchange for their resignation.<sup>206</sup> It wanted to eliminate 62 jobs.<sup>207</sup>

“It’s a standard business practice, one that we have done at other places,” said the communications manager for the corporation.<sup>208</sup>

Without hands to repair and maintain piping, what followed was no surprise. Poor service plagued the city. Broken sewer lines created sinkholes that went unaddressed for months,<sup>209</sup> and overflowing sewers and collapsed sewer lines became all too common.<sup>210,211</sup> Storm water tainted with raw or partially treated sewage flooded basements, ditches and streets.<sup>212</sup>

Poor service hit the pockets of customers in towns surrounding Gary. In 2006, the sewer district nearly over-charged suburban residents by \$400,000. When lawyers for the outlying towns contested the inflated bills, United Water officials admitted that meters at the plant had been malfunctioning for more than a year and agreed to reduce the charges. Two years later, the company still had not replaced the defective meters.<sup>213</sup>

Work that the corporation did do turned out to be a waste of money. It paid to have several sewers cleaned only to watch them fall apart afterwards. Between 2003 and 2007 there were more than 80 cave-ins, with many prompting road closures.<sup>214</sup>

In 2007, federal investigators began scrutinizing the Gary Sanitary District at the request of the Justice Department, along with the Environmental Protection Agency. Shortly thereafter, they turned their attention to United Water’s operations.<sup>215</sup>

Despite the questionable service, and right after rates jumped 85 percent,<sup>216</sup> the sanitary district extended its contract with United Water for another five years and \$54 million in May 2008.<sup>217</sup>

That same month, a state inspection found that the district, under United Water’s watch, violated the district’s discharge limits 84 times in the past two years, had at least 25 pieces of broken equipment, filed inadequate monitoring reports and failed to meet mandated deadlines.

In October 2008, federal investigators raided the district’s offices as part of their multi-agency search for “evidence of environmental crime.”<sup>218</sup>

**Table 4. What Happens When Corporations Take Over Water and Sewer Systems?**

Many communities have had similar troubling experiences after turning their water and sewer systems over to corporations. Here is a list of common problems that happen with privatization.

Problems reported by local governments or consumers		Examples in this report
Pocketbook Issues	Inflated costs, cost overruns, overestimated cost savings	Lynn, Mass.; Lee County, Fla.; Cranston, R.I.; Houston, Texas
	Rate hikes, high bills	North Brunswick, N.J.; Gary, Ind.; Cranston, R.I.; Fairbanks, Alaska; Fort Wayne, Ind.; Mequon, Wis.
	Fines or legal settlements for environmental problems	Burlingame, Calif.; Richmond, Calif.; Cranston, R.I.; Wilmington, Del.; Woonsocket, R.I.
	Contract termination fees	North Brunswick, N.J.; Scranton, Pa.
Service and quality concerns	Maintenance and service problems	Lee County, Fla.; Gary, Ind.; Wilmington, Del.; Woonsocket, R.I.; Scranton, Pa.; Houston, Texas; Fort Wayne, Ind.
	Job cuts, staff size reductions, worse employee benefits (harder to maintain a qualified workforce)	Lynn, Mass.; Gary, Ind.; Fairfield-Suisun, Calif.; Petaluma, Calif.
	Violated contract or failed to complete contracted work	Lynn, Mass.; Lee County, Fla.; Houston, Texas
	Billing disputes with residents or city	Gary, Ind.; Wilmington, Del.; Houston, Texas
Environmental and human health concerns	Sewage spilling onto streets and waterways	Burlingame, Calif.; Richmond, Calif.; Gary, Ind.; Cranston, R.I.; Wilmington, Del.; Woonsocket, R.I.; Scranton, Pa.
	Sewage flooding homes or businesses	Richmond, Calif.; Gary, Ind.; Fairbanks, Alaska
	Bad odors	Cranston, R.I.; Wilmington, Del.
	Poor drinking water quality	Houston, Texas; Fort Wayne, Ind.

## Case Studies II: The Fallout of Declining Federal Funding

Confronted by withering federal support, deteriorating infrastructure and stringent federal requirements to eliminate sewage overflows, several municipalities have fallen victim to the lure of privatization. City officials turned to the private sector under the duress of unfunded federal mandates. Wastewater systems, built years ago with federal grants, transferred hands and became subject to the whims of corporate water barons.

Instead of the support that communities desperately needed, privatization brought rate hikes, bad service and disregard for the public's well-being. Municipalities could not shake off their responsibilities and continued to bear the risks of environmental and human health violations.

Communities could have avoided the consequences of their unnecessary and disastrous experiments with privatization, if only the federal government had maintained its commitment to supporting clean and safe water.

Below are a few examples of what happens when municipalities, after losing federal support, hazard privatization. All of these systems had received funding under the discontinued Construction Grants Program, which provided more than \$67 billion of federal funding to publicly owned wastewater systems in the 1970s and 1980s.<sup>219</sup>

*"Back in the 1970s, when the Environmental Protection Agency required us to make improvements to bring our plant to the secondary treatment level, that was associated with a grant to build a new treatment facility. Now, those grants have gone away, but the mandates continue." – Peter Alviti, public works director in Cranston, R.I.<sup>220</sup>*

### ***A Sewage Washout in Cranston, R.I.***

With falling federal support and growing federal requirements, Cranston's wastewater system descended into debt and disrepair. By 1997, it had fallen out of compliance with federal and state environmental regulations.<sup>221</sup> It needed nearly \$30 million in mandated improvements but owed \$8.6 million to the city's general fund.<sup>222</sup>

"When I became mayor in 1985, the federal government was stepping away from assistance to local municipalities," Cranston Mayor Michael Traficante said at the time. "So we had to find ways to maintain services but cut down on expenses." Traficante believed that privatization could meet those goals because of what he heard at a meeting of the Conference of Mayors,<sup>223</sup> whose corporate sponsors include the eventual beneficiary of Cranston's contract.

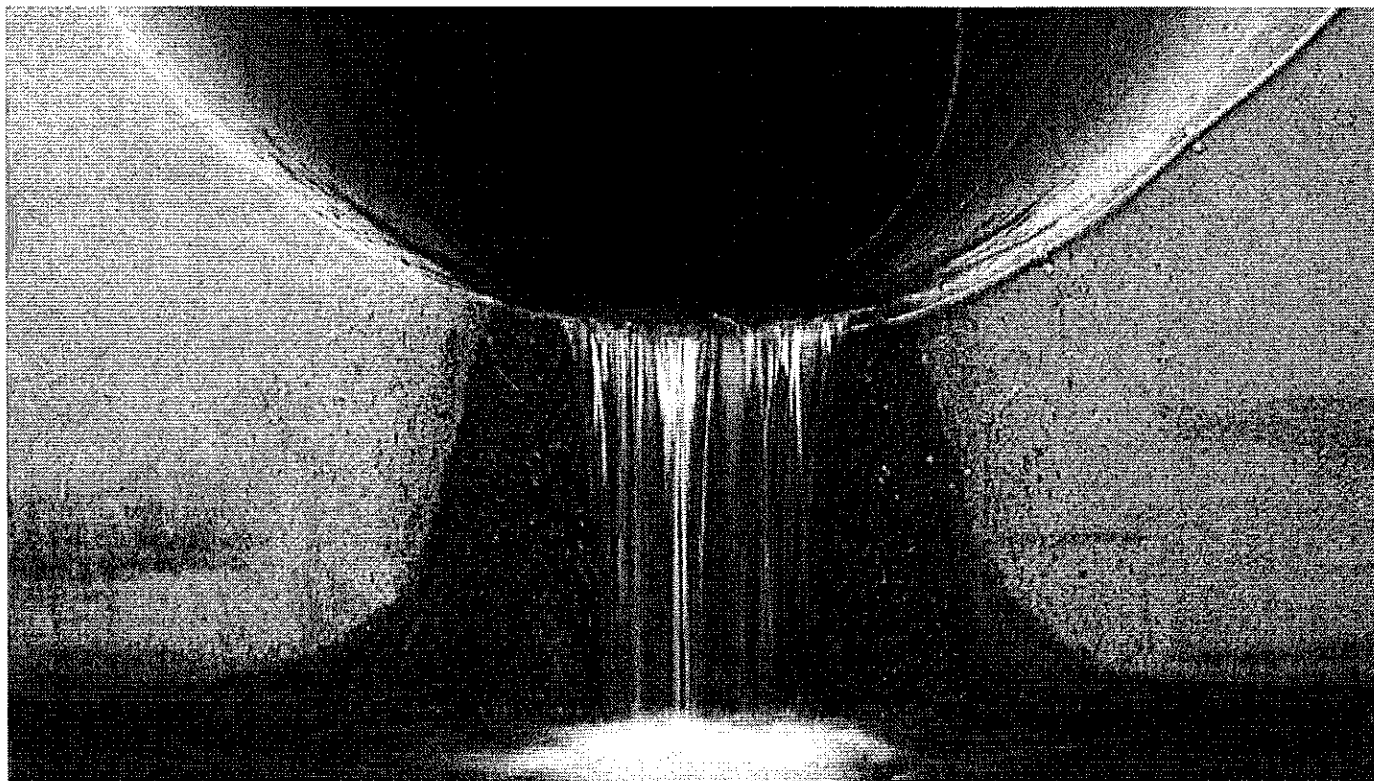
In 1997, the city entered into a 25-year, \$400 million lease agreement with Triton Ocean State LLC, a subsidiary of Poseidon, which is a private U.S. corporation that manages desalination and other water treatment projects, for the operation and maintenance of its wastewater treatment plant.<sup>224</sup> The company paid Cranston a \$48 million upfront fee and agreed to finance \$30 million of mandated capital projects.<sup>225</sup> In 2001, Triton delegated the lease to U.S. Filter, later called Veolia Water North America, and the contract was extended for five years.<sup>226</sup>

Over the term of the lease, the city expected to save between \$5.4 million and \$48 million — a wide range that was predicated on improvements in Cranston's credit rating, not on reductions in capital or operating costs. What's more, the assumption that it would improve the city's credit rating "runs counter to common sense and to criteria published by municipal bond rating agencies," according to the Office of the Inspector General of Massachusetts.<sup>227</sup>

As it turns out, Cranston's bond rating actually fell right after the city signed the lease<sup>228</sup> and did not recover to its pre-privatization level until 2008 — more than 10 years later.<sup>229</sup> In the words of investigators for the state's inspector general, the lease merely transferred "the burden for Cranston's past overspending habits to future taxpayers and ratepayers."<sup>230</sup>

Over the next few years, a laundry list of problems plagued the city:

- In 1998, 1.8 million gallons of partially treated sewage spilled into nearby waters, resulting in a \$20,000 fine.<sup>231</sup>
- In 2000, the wastewater treatment facility allegedly violated air pollution control regulations, resulting in a \$3,250 fine.<sup>232</sup>
- In 2003, 5,500 gallons of sewage sludge, the solid material skimmed out of sewage water, spilled onto a city street.<sup>233</sup>



- In 2005, numerous odor complaints were made about the wastewater treatment plant.<sup>234</sup> A state inspection found that the sludge was stockpiled on the floor of the sludge building, on the ground outside the building and even in the sump of a nearby storm drain.<sup>235</sup> The same year, a sewer line collapsed, leading to an allegedly illegal discharge of sewage into the Pocasset River. Cranston took the fall and absolved Veolia of the financial burden by agreeing to repair the sewer and pay an \$8,500 penalty.<sup>236</sup>
- In 2006, objectionable odors resurfaced and an emissions test on a sludge incinerator found that the facility was emitting high levels of particulate matter, arsenic and cadmium.<sup>237</sup>
- In 2008, the state department of environmental protection found that Veolia violated several regulations: "improper management of sludge, improper maintenance of equipment, failure to comply with the emission limitations for sludge incinerators, and objectionable odors,"<sup>238</sup> resulting in a \$28,000 fine.<sup>239</sup>

Under Veolia's watch, the operation of the plant led to sewage spills, odors and thousands of dollars in environmental fines. Meanwhile, annual sewer rates jumped 55 percent from \$229 in 1997 to \$354 in 2006.<sup>240</sup> Cranston is paying too much for a bad deal.

### **Relentless Rate Hikes in Fairbanks, Alaska**

Fairbanks, Alaska, auctioned off its water and sewer systems to the highest bidder, whose bid wasn't that high.

After 10 years of study and two years of public scrutiny in a bitterly contested process, the final decision came in October 1997. The city had just two days to approve the sale and be open for business or terminate the whole process. Facing this hard deadline, the city rushed through its final decision to siphon

off its utilities,<sup>241</sup> for only \$2 million, to Fairbanks Water & Sewer, Inc.<sup>242</sup>

Residents were not pleased to learn that the water and sewer system was basically given away. "They paid \$2 million for a utility company that has assets of over \$15 million," said resident Scott Coltellaro in a letter to the editor of the local paper disparaging the company's requested rate hike. "The person or persons responsible for giving away the utility should have to pay the difference of \$13 million back to every property owner who lives in the city."<sup>243</sup>

The company knew the system's real value, and tried to use it to reap profits off the back of residents. It asked state regulators to set the value of the water and sewer system at \$15 million — more than seven times the \$2 million it paid for it. The higher value would have allowed the company to charge higher rates and take home more profit. Regulators denied the request and said that the company should only be allowed to profit from its actual investment — \$2 million.<sup>244</sup>

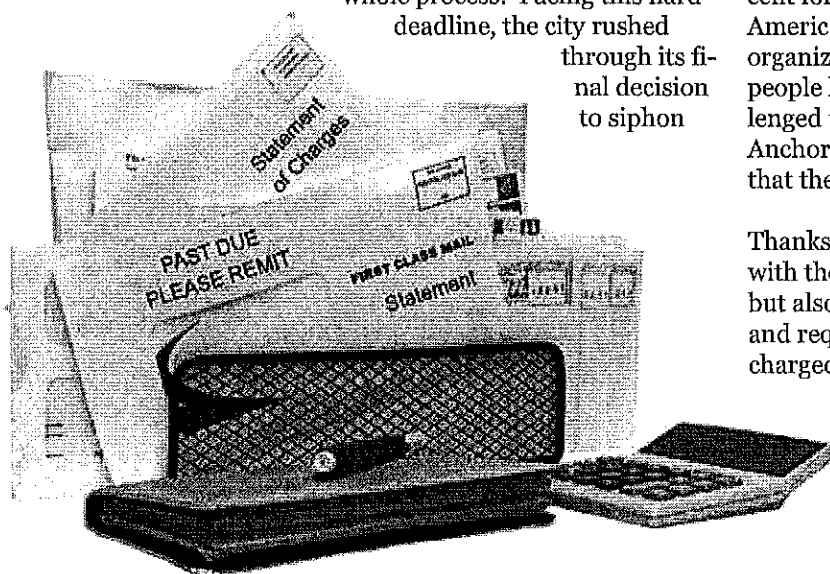
The sale fleeced Fairbanks residents. Two years after 182,000 gallons of water spewed into a hotel basement in 2001,<sup>245</sup> the business owner filed a million-dollar lawsuit against the city and the utility claiming their negligence to turn off water to the building resulted in huge damages.<sup>246</sup>

Meanwhile, all residents were enduring a string of rate hikes. When the investors purchased the systems, they had to agree to wait five years before collecting profits, so that all earnings could go back into the utility. As soon as that period expired in 2002, water and sewer rates jumped by \$12 a month, allowing the investors to pocket a 12.4 percent return on the system.<sup>247</sup>

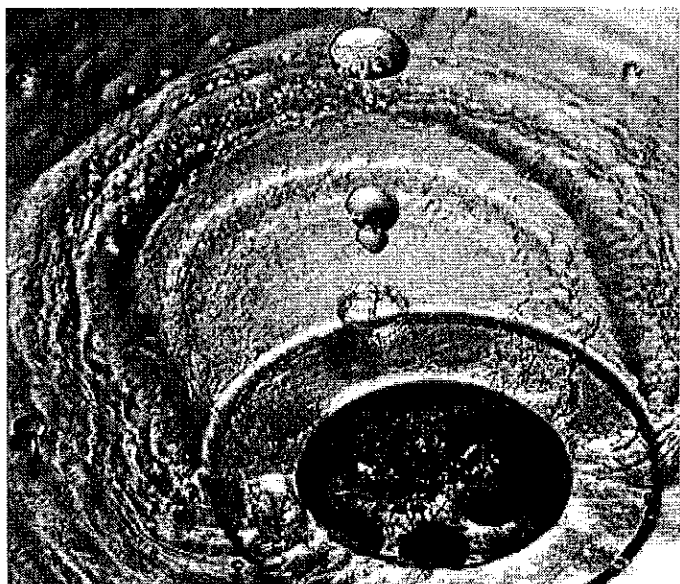
In 2005, the company kicked up rates again by 16.6 percent for water and 11.3 percent for sewer service.<sup>248</sup> The American Association of Retired Persons intervened. The organization argued the high bills could adversely affect people living on fixed incomes, such as retirees. It also challenged the company's request to hold the public hearing in Anchorage, six hours south of Fairbanks. It was concerned that the distance would impede public participation.<sup>249</sup>

Thanks in part to the work of AARP, regulators sided with the public, not only on the location of the hearing,<sup>250</sup> but also on the rates. Regulators denied the 2003 hike and required the company to refund the interim rates charged from 2005 to 2006.<sup>251</sup> The company appealed this decision.<sup>252</sup>

Then, in 2006, for the second time in nine months, the company sought to hike rates by as much as 36 percent.<sup>253</sup> Regulators denied this request because they wanted to hear it separately







from the first case.<sup>254</sup> A month later, the company reapplied, hoping to raise rates by 19 percent for water and 15 percent for sewer.<sup>255</sup>

In 2007, with two previous rate requests unresolved, the company filed for another hike. It wanted to increase water rates by 20 percent and sewer rates by 6 in 2007 and then both by 5 percent in 2008, 2009 and 2010. If approved, the pending proposal would allow the company to take home more money by upping the rate of return to 13.85 percent.<sup>256</sup>

### ***A Shortsighted Approach in Danbury, Conn.***

Danbury, Conn., wanted an easy way to balance its municipal budget, so in 1997, the city leased its sewers to U.S. Filter, in exchange for a \$10 million upfront payment.

The corporation planned to recover the cash advance over 20-year term through annual management fees of \$3.1 million from the city. Meanwhile, Veolia could expand the system to neighboring communities as long as the city received 35 percent of the revenue.<sup>257</sup> The company could pocket the rest.

In effect, the city will end up paying \$22 million for the \$10 million windfall. A concession fee is like an expensive loan that the city repays off the back of its residents.

Charles Conway of EPA criticized Danbury's decision as shortsighted. "The driving force of the Danbury contract is the upfront \$10 million concession fee," he said. "Many municipal officials are using these concession fees for short term gain at the expense of the long term viability of their wastewater infrastructure."<sup>258</sup>

### ***Causing a Stink in Wilmington, Del.***

Wilmington, Del., thought privatization would solve all of its sewer problems, but within three years, the city found its treatment plant in worse shape than ever.

In 1997, Wilmington entered into a 20-year, \$164 million lease agreement with U.S. Filter. The company paid the city \$1 million for administrative costs and promised to make \$13 million in capital improvements.<sup>259</sup>

The city soon discovered its mistake. The company's failure to make necessary upgrades and repairs caused chronic pollution problems. At least six times in nine months in 1999 and 2000, the plant had violated its permit and dumped undertreated sewage into the Delaware River. The state Department of Natural Resources and Environmental Control threatened sanctions.

Just three years into the deal, the *News Journal*, the local newspaper, issued harsh criticism. Acknowledging that many people had opposed the original contract fearing rate hikes, the newspaper's editorial board said, "Few worried that the plant would become more of an environmental problem than it already was, but that is what has happened."

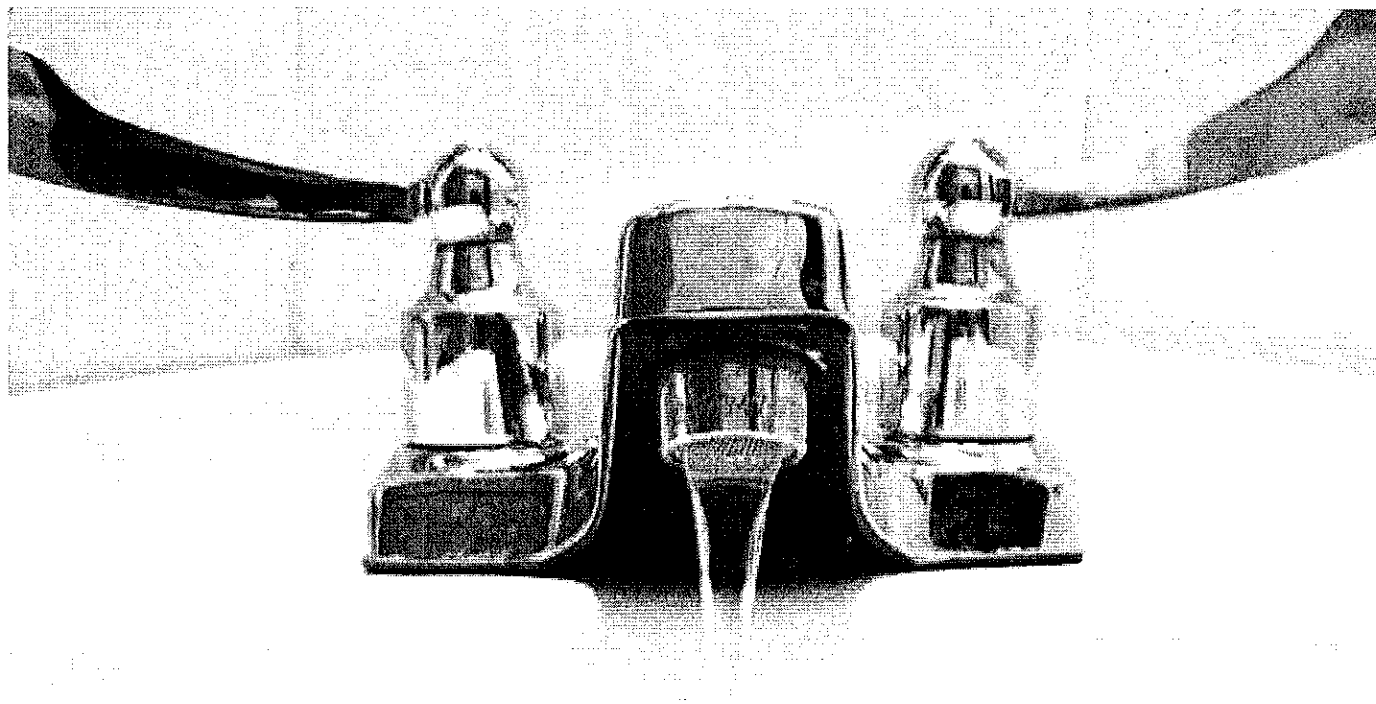
"No more excuses," it editorialized. "Fix the plant or replace the operator."<sup>260</sup>

The city didn't heed this advice. Three months later, the sewer system dumped 19 million gallons of raw, untreated sewage into a nearby creek because of an easily preventable problem. A pumping station was without power for nine hours because of a power outage and the failure of backup equipment.<sup>261</sup>

For this major spill and the ongoing series of violations, the state fined the city and the company \$91,000. Nicholas DiPasquale, secretary of the state Department of Natural Resources and Environmental Control, said, "The City of Wilmington and its contract operator U.S. Filter must ensure the proper management and operation of the wastewater treatment plant to protect public health and the environment."<sup>262</sup>

This advice, too, went unheeded. By 2002, the sewage treatment process was causing such a stink that the Department of Natural Resources and Environmental Control cited the plant for odor violations. A year later, the odors — described as fishy or rotten — were still wafting over parts of the city.<sup>263</sup>

"It's pungent enough to wake you from a dead sleep," said resident Tina Robinson, who had been complaining about the stench for three years. "It would be encouraging if in fact they identified a chemical or a process that's causing it, and it would be nice if they told the community if there was any long-term risk."<sup>264</sup>



A state environmental scientist had to come into the city to investigate it. He believed the source of the stench was a common sewage treatment process, adding, "It looks like something as simple as working with the operator of the plant can probably abate the odor." The city had to conduct a thorough study of the treatment plant's operation.<sup>265</sup>

Despite its poor performance, Veolia battled the city for three years to increase its annual payment. Finally in 2007, through an official arbitration process, the sides reached an agreement on an alternative calculation of the amount the city would pay the company. Essentially, Veolia finagled an extra \$1 million onto its 2008 fee bringing the total up to \$9.8 million.<sup>266</sup> The remaining annual fees may be similarly affected.

The same year, the city demanded a 55 percent hike in the \$15.8 million annual fee paid by New Castle County for treating its wastewater, which accounts for at least 70 percent of the sewage treated at the regional plant. County officials balked at the request and demanded to see details about the city's budget and its payments to Veolia.<sup>267</sup> After 18 months of failed negotiations with the county, the city asked the American Arbitration Association to intervene and help settle the dispute.<sup>268</sup>

Meanwhile, sewage spills continue to plague the city. Dozens of sewage overflow outlets send more than a billion gallons of contaminated wastewater into area waterways every year.<sup>269</sup>

### ***Environmental Woes in Woonsocket, R.I.***

Privatization was a flop in this former mill town in northeastern Rhode Island.

Hoping to meet all regulatory requirements, Woonsocket decided to privatize the facility to U.S. Filter in 1999.<sup>270</sup> Under a 20-year, \$75 million contract,<sup>271</sup> the company agreed to finance the improvements necessary to bring the wastewater system into environmental compliance.<sup>272</sup> It turns out that task was too much for the company.

In 2001, the wastewater treatment facility was cited for spilling 11,000 gallons of sewage into the Peters River, resulting in a \$25,000 fine.<sup>273</sup> For five months in 2002, the plant released wastewater that contained too much ammonia. Veolia also neglected to install required equipment and failed to submit an adequate operations and maintenance manual to the state. As a result, the state Department of Environmental Management fined the city and Veolia \$28,400.<sup>274</sup>

Then, in 2005, every day for at least four days after a heavy rainstorm, 26 million gallons of partially treated sewage and storm water runoff spilled into the Blackstone River. Equipment was broken and unable to do important secondary treatment of wastewater, and no one would say how long it would be before the plant resumed full treatment.<sup>275</sup>

"They lost their biological treatment," said Warren Towne, supervising engineer of the department of environmental



management. "It breaks down the biological matter — human feces and whatever goes down the toilet and sink, and industrial wastewater. They lost the ability to break that down."<sup>276</sup>

In 2007, EPA ordered the utility to stop its harmful raw sewage overflows<sup>277</sup> and issued a formal action requiring \$50,000 worth of work to achieve compliance.

By 2008, the plant had been out of compliance with the Clean Water Act for at least three years. In total, over the preceding five years, the state Department of Environmental Management issued seven informal enforcement actions and five formal actions against the treatment plant, including one requiring \$25,000 in supplemental environmental projects.<sup>278</sup>

The public sector had to step up and teach the company about permit compliance. The Department of Environmental Management selected a Woonsocket wastewater operator to attend a training program, called Wastewater Management Boot Camp.<sup>279</sup>

Veolia failed to bring in expertise to correct its environmental problems. In the end, the public had to lead the way.

### **Nickel and Dimed in Scranton, Pa.**

Privatization forced Scranton, Pa., to the brink of bankruptcy.

Scranton, designated a distressed city since the early 1990s,<sup>280</sup> was facing growing infrastructure needs and falling cash reserves. In search of a new revenue source, the city, along with the neighboring borough of Dunmore, decided to privatize the regional sewer authority in 1999.<sup>281</sup>

Without competitive bidding, AmericanAnglian — a partnership between British Anglian Water and American Water, the largest water corporation in the United States — received the 20-year, \$134 million lease to operate, maintain and manage the sewer system.<sup>282</sup> In exchange, the company paid Scranton and Dunmore an \$8 million concession fee, with Scranton receiving 80 percent. Effectively, the cash-strapped cities found a way around a law preventing them from taking money from the sewer authority's plush cash reserve, which at the time exceeded \$12 million.<sup>283</sup>

The piper, however, would soon come to collect.

The company had such poor performance that in 2002, EPA had to order the city and company to repair the sewers, correct their operation and maintenance problems and stop their illegal sewage discharges.<sup>284</sup> Although the contract specified that American Water should pay for mainte-

nance costs and the sewer authority would cover capital improvement costs, the company constantly contested which projects should be its responsibility.<sup>285</sup>

After the first 5 years, in 2004, American Water wanted a 22 percent increase in its fees, which would have forced Dunmore customers to pay an additional \$8 million over the remaining 15 years of the contract. The company had already hiked fees 45.6 percent the previous year, and residents already were paying about \$300 a year for sewer service.<sup>286</sup>

The cities decided to exit the deal, assuming that they would not have to pay a termination fee because one was not specified in the contract. But the company took them to arbitration. A judge upheld the arbitrator's judgment in favor of the company, and the cities had to pay it \$6.6 million to refund the remaining balance on the concession fee.<sup>287</sup> As the local paper editorialized, "[T]his is a case of pay me now or pay me later, and the later is here."<sup>288</sup>

By 2007, Scranton was more than \$100 million in debt and had to borrow \$10 million to balance its 2007 operating budget. The city had no idea how it would pay the termination fee.<sup>289</sup> This privatization was almost the final blow that sent the ailing city into bankruptcy.<sup>290</sup>

Before that could happen, the mayor arrived at a creative solution. Instead of returning to faulty corporate devices, he turned to the public sector. He sold the city's storm water system to the regional sewer authority for \$7 million and used the proceeds to pay American Water.<sup>291</sup> The sewer authority took out an \$8 million loan<sup>292</sup> and hiked sewer fees by 56.5 percent, costing the average household an extra \$136 a year.<sup>293</sup>

Frank Naughton, who had served on the sewer authority's board of directors when the contract was signed, had predicted that the deal would come back to haunt the community. He even had issued a prescient warning to Scranton and Dunmore. When he testified against the contract at a public hearing, he said that his main concern was that the cities would have to repay \$6.6 million if they exited the agreement after the first five years.<sup>294</sup>

"It is like 'I told you so,'" he said. "The quick fix was not the quick fix. The rooster has come home to roost."<sup>295</sup>

By the end of it all, Mayor Chris Doherty acknowledged that American Water got the better end of the deal. "What we got is money to pay bills. That's it," he said. "What they made sure is they got their money back in the end. They didn't invest in improvements. ... They didn't spend a dime."<sup>296</sup>

## Case Studies III: Saving Money with Public Operation

"Public employees provide service better, cheaper, faster," said Jack Sombati of AFSCME Ohio Council 8. "Companies take profit out of the quality of their work. Our employees are in it for the service."<sup>297</sup>

Akron residents were wise to reject privatization of their sewers. The public sector typically is just as — if not more — efficient as the private sector, and several cities realized considerable cost savings by taking back public control over their water and sewer systems.

Below are several examples of how cities kicked out corporate operators to save money.

### *Public Relief from Corporate Maelstrom in Houston, Texas*

After more than a decade of faulty corporate operators, the city of Houston decided to end all its water contracts and bring the public service completely in-house.

Houston's movement to public control began when Michael Marcotte took office as the city's public works director in 2005. During his first year on the job, the division reassessed the privatization of the water plants and discovered that it wasn't beneficial. "We believe that we can operate these plants as efficiently and effectively as the private sector," said Marcotte. "While we are committed to private sector contracts in many areas, I think in this area, we can do a better job."<sup>298</sup>

Indeed, scandal and incompetence marred the city's water privatization experience. In 1996, a federal investigation began on alleged questionable financial transactions involving consultants hired by PSG, a subsidiary of Veolia (then Vivendi). The company had hired high-profile consultants to lobby city officials around two big-ticket deals, both of which came to naught. It unsuccessfully rebid for a contract to operate the city's Southeast Water Purification Plant and tried, unsuccessfully, to get the city to privatize its Public Utilities Division.<sup>299</sup>

United Water beat out PSG for the \$16.3 million contract to operate the water treatment plant, but the plant switched hands again five years later. In 2001, the city awarded a \$46 million five-year contract to Enron's Azurix, now part of American Water.

United Water didn't take kindly to being booted out, and for the next few years the city and the company were embroiled in a legal battle over unpaid bills and a multimillion-dollar maintenance dispute. The company filed a lawsuit seeking



\$900,000 from the city, which supposedly failed to pay it for services rendered under the terms of the contract. The city responded by filing a countersuit claiming United Water failed to properly maintain equipment, as required in the contract, resulting in \$1.9 million in damages.<sup>300,301</sup>

In September 2007, after six years of entanglement in a series of appeals, the city and the company finally decided to drop the case.<sup>302,303</sup> Despite the inconclusive ending, the city ran up more than \$370,000 in legal support services fees.<sup>304</sup>

After a legal fight in 2007, the city gave the boot to American Water, too, deciding once-and-for-all to bring the operation in-house. The city expects to save an impressive 17 percent, or \$2 million, operating the plant with public employees.<sup>305</sup>

Houston had no more success when it decided to privatize the design, construction and operation of a new treatment plant on Lake Houston. Azurix, then a subsidiary of Enron, was vying for the \$150 million water contract. A city hall committee twice recommended the doomed water compa-

ny, and twice the water department objected and required the staff to recalculate and incorporate different figures.<sup>306</sup>

A citizens' board voted to grant the contract to Montgomery Watson, Inc., which later merged with another company and took the name MWH Constructors. The company's bid came in \$17 million below Azurix's. "This has been a very long process, longer than we thought," said David Berg, chairperson of the water department. "I recall (the mayor's chief administrative officer) saying to us it'll be six months, six meetings and it'll be over, no big deal."<sup>307</sup>

Corporate lobbyists and campaign contributions marred the negotiations. Azurix had heavy hands in the game. One of its lobbyists was a former city attorney and another was Mayor Lee Brown's campaign fundraiser. Brown also received the maximum \$10,000 corporate contribution from two Azurix players, including Enron. What's more, the mayor had a close relationship with Enron Chairperson Ken Lay,<sup>308</sup> a name that later would become synonymous with scandal and fraud.

Nevertheless, Montgomery Watson had the advantage because its allies included a Metro board member and close friend of David Berg, chairperson of the water division. "I think the public would be shocked if they knew how business is so concentrated among a few players in the city," said Berg. "There are voices in the city that are heard, because of political considerations, because of contributions and things like that."<sup>309</sup>

In July 2001, Montgomery Watson won the \$104 million contract and promised to build the Northeast Water Purification Plant in two and half years.<sup>310</sup> The city's water division estimated savings of \$40 million over the 10-year term.<sup>311</sup> Time would tell another story.

Three years later, before the plant treated its first drop of water, the city had to pump another \$42 million into the project to expand the production volume. Council member Bert Keller opposed the measure, claiming that Montgomery Watson cut costs by using sub-par materials and equipment and pocketed the savings. "There have been a lot of change orders and basically they have substituted less quality equipment than what was on the original plan," said Keller. "They haven't shown us the paper trail."<sup>312</sup>

Finally completed in June 2004, the \$97 million water purification plant was able to produce as much as 40 million gallons of water a day for people to drink — not that anyone would want to. The water was bad.

"You can't drink it," said David Berg, the chairperson of the water board that oversees the plant. The water repeatedly failed to meet EPA standards.<sup>313</sup>

"They have not delivered a plant that creates water with the standards of purity that we set," said Berg. The plant was unable to consistently meet even the lowest standards set in the contract. According to Berg, the corporation was "mortified" by the terrible water its plant produced. The company said it could take 10 months and \$6 million to correct the problem, which Berg demanded that they pay to correct. "They constantly told us what a thin (profit) margin they were working on, and we told them we were aware of that and we really didn't care," said Berg.<sup>314</sup>

On January 31, 2008, Houston terminated its contract with Montgomery Watson and took control over its Northeast water purification plant. "We're pursuing [operating cost] savings that are difficult to accomplish within the constraints of the service agreement," explained Jeff Taylor, the deputy director of the city's utilities division, adding, "We believe we're the best operators in this region."<sup>315</sup>

The city expects to save about 8 percent, or \$800,000, by operating the Northeast plant with public workers. The corporation, however, plans to take legal action against the city, saying, "[w]e will definitely not go gently into the night."<sup>316</sup>

### ***Numerous Benefits in Fairfield-Suisun, Calif.***

In Fairfield and Suisun, Calif., public operators are saving money and improving service.

In January 2008, after three decades of contracting out the operation and management of its sewer system, the Fairfield-Suisun Sewer District unanimously voted to bring its system in-house and kick out United Water.<sup>317</sup>

Earlier, the sewer district had suspected that it could get a better deal, so it hired consultants to assess the sewers.<sup>318</sup> What the consultants uncovered was far more than convincing. They found that public operation would reduce operational costs by 10 to 15 percent,<sup>319</sup> and these savings will come without the detrimental cuts that United Water would have made to employee retirement plans.<sup>320</sup>

*"Public employees provide service better, cheaper, faster." — Jack Sombati, AFSCME Ohio Council 8*



The district offers employees more competitive compensation packages that can better attract and retain qualified staff from the increasingly limited pool of qualified applicants.<sup>321</sup> United Water, on the other hand, was failing to maintain a steady workforce, which hurt its performance.<sup>322</sup> It had five different plant managers over the preceding five-year period,<sup>323</sup> and was unable to fill the position at the time of the consultants' assessment.<sup>324</sup>

A well-trained workforce can better prevent sewage overflows, and is better equipped to deal with them if they do occur. Overall, with less staff turnover and more oversight over the sewers, public operators are more likely to meet permit requirements. For the Fairfield-Suisun Sewer District, public and environmental health was an important factor. Even when it contracted out its sewers, the sewer district, as the owner, is ultimately responsible for compliance and workplace safety.<sup>325,326</sup> Privatization failed to transfer risk to the private sector.

Kathy Hopkins, the general manager of the district, noted this failure as a reason to put the sewers back in public hands. "We can't push off risk anymore," she said, "so we might as well take back control."<sup>327</sup>

What's more, the district found that public control benefits the local economy. It believed it would have had to pay United Water, a subsidiary of French multinational Suez, as much as 20 percent profit to renew the contract.<sup>328</sup> Instead of padding the pockets of foreign stockholders, the district opted to keep money in the local economy by using it to maintain a qualified workforce.<sup>329</sup>

Corporations were imposing increasingly high profit requirements as competition for contracts fell. In 2004, only three companies bid for the district's contract, and the proposals were less competitive than in the past. Continued consolidation of the water industry has decreased competition and increased contract prices.<sup>330</sup>

Had the district not reclaimed the sewer system, households would have had to pay higher sewer rates to meet the company's demands for more money.<sup>331</sup>

### ***Privatization Too Expensive for Petaluma, Calif.***

In November 2007, two months before Fairfield-Suisun reclaimed their sewers, Petaluma, Calif., unanimously voted to take back its wastewater treatment system from Veolia.<sup>332</sup>

After nearly 30 years of private operation, the wastewater treatment system was set to return to public hands at the end of 2008, when the city phased out the old plant with the introduction of a new water recycling facility.<sup>333</sup>

The city opted not to privatize the new plant after a cost analysis determined that public operation would be "more efficient and effective than operation by a private contractor."<sup>334</sup> Petaluma expects to save \$1.6 million over the first three years.<sup>335</sup> That's an astonishing 18 percent on the total cost of operating the recycling plant.

The public saves money by removing the contracting costs and profit requirement. A water corporation typically would have taken home 15 percent on top of the direct costs to run the facility.<sup>336</sup>

What's more, the city will save money while still offering higher salaries and better benefits, which attract and retain qualified personnel.<sup>337</sup> The only reduction that privatization offered was in employee compensation.<sup>338</sup>

### ***Saving Households Hundreds of Dollars in Felton, Calif.***

After a long, arduous struggle, the residents of Felton, Calif., won a resounding victory for public water in 2008 when they wrested control of their utility from the clutches of California American Water, a local subsidiary of German giant RWE.<sup>339</sup>

For more than half a decade, Felton Friends of Locally Owned Water, a grassroots community group, organized film screenings, fundraisers and petitions to successfully challenge corporate rule and join the San Lorenzo Valley Water District, a local public utility.<sup>340</sup> With the support of Felton FLOW, the district successfully negotiated a deal with the corporation to buy the system for \$13.4 million, including \$2.9 million in debt assumption.<sup>341</sup>

This triumphant conclusion came three years after Felton passed a ballot initiative to raise \$11 million in bonds to buy their waterworks.<sup>342</sup> Through the public referendum, residents agreed to pay an extra \$560 in their property taxes over the next few decades to cover the purchase.<sup>343</sup>

Despite the tax hike, residents actually saved money with the takeover because of huge decreases in water rates. When the system transferred to public hands, the average household water bill dropped from \$225 to about \$80,<sup>344</sup> saving families an impressive \$870 a year.<sup>345</sup> Plus, the district did not need to increase rates to cover additional expenses associated with the sale.<sup>346</sup> In total, after accounting for the tax increase and the rate reduction, the typical family saved \$310 a year with public control.<sup>347</sup>

What's more, Felton FLOW estimated that the San Lorenzo Valley Water District could cut operational costs by as much as 80 percent. The district expected savings to come from new synergies and efficiencies.<sup>348</sup>

The transition to public hands went smoothly,<sup>349</sup> and the finance manager of the San Lorenzo Valley Water District reported, "Very positive input from most Felton customers who have called in."<sup>350</sup>

### ***Cutting Out the Fat in Fort Wayne, Ind.***

On the northern edges of Fort Wayne, Ind., communities finally have the clean, public water that they've longed for.

In February 2008,<sup>351</sup> after fighting for public control for more than five years, Fort Wayne successfully took over the area's water and sewer systems from Aqua Indiana,<sup>352</sup> a subsidiary of Aqua America, the second largest publicly traded U.S. water corporation. Before extending the benefit of public water to the company's southern customers, the city wanted to finalize the northern acquisition. The purchase price was the last bugbear.

Aqua Indiana had balked at the city's \$16.9 million offer for the system and challenged the figure in court.<sup>353</sup> It wanted to squeeze a little bit more money out of the public, even though in a quarterly financial filing, Aqua America itself admitted that city's offer was "in excess of the book value of the assets relinquished." Nevertheless, the corporation

## ***Public control of water and sewer service in Fort Wayne, Indiana, saved households more than \$370 a year.***

reached a settlement with the city and agreed to allow the sale on the condition that the results of its legal proceedings determine the final price.<sup>354</sup> As of November 2008, this case was still pending, but that didn't stop the city from improving services.

Immediately after the public takeover, Fort Wayne began upgrading the systems. Public workers, joined by Mayor Tom Henry, installed dozens of fire hydrants throughout the community to improve fire protection. Residents quickly noted higher quality water. The clear city water pleased community members like Ed Steger, who had complained of Aqua's hard, discolored water.<sup>355</sup>

Sewer service improved, too. According to Fort Wayne City Utilities, which treated the company's wastewater, Aqua Indiana owed the city more than \$2 million for wastewater treatment, and it neglected sewer upkeep allowing the piping to deteriorate. Ted Nitza, a program manager for the city utilities, called Aqua Indiana the city's "worst performing contract customer."<sup>356</sup>

By assuming control over the sewers, the city finally could collect payment for treating the area's wastewater.<sup>357</sup>

The city can provide better water, improve service and rejuvenate the systems — all at a lower price. A typical household outside city limits had to pay \$44 a month for water and sewer service from Fort Wayne City Utilities.<sup>358</sup> That's an impressive \$31 less than the \$75 a month that an Aqua customer in southern Fort Wayne had to pay.<sup>359</sup> In total, public control saved households more than \$370 a year.<sup>360</sup>

Although it sounds like a great feat, the city utility has saved its customers money because it does not have to turn profit. Aqua Indiana, on the other hand, will take home \$4.2 million just from the pockets of its remaining customers in the southern areas around Fort Wayne.<sup>361</sup>

Fort Wayne's department of public works and utilities has earned the support of residents and proven that it can cut costs. Through a six-point plan, the department saved

residents \$10 million over a seven-year period. The improvement program assessed and fine-tuned more than 30 processes to remove inefficiencies and improve quality. Because of this innovative project, *Public Works Magazine* named Fort Wayne's department of public works and utilities "Department of the Year" in 2007.<sup>362</sup>

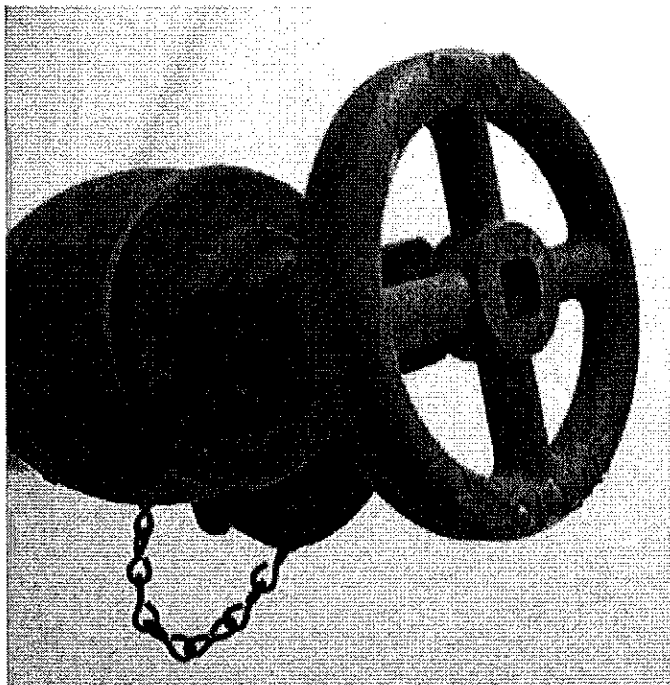
### **Lower Bills in Mequon, Wis.**

During a primary election on September 9, 2008, voters in Mequon, Wis., went to the polls and approved by an astonishing 6-to-1 margin a ballot initiative to allow the city to take over their water utility.<sup>363</sup> We Energies, the owner at the time, wanted out of the water business and had spent the previous four years searching for a buyer.<sup>364</sup>

After two years of rate hikes sent household bills up 35 percent, the city decided to look into a public takeover.<sup>365</sup> After hiring an independent analyst to assess the costs,<sup>366</sup> the city promised that the public operators could provide high quality water at a lower price. Mequon bought the system for \$14.8 million using 20-year tax-exempt bonds that it will recover from water bills — not from taxes.<sup>367</sup>

What's more, the city will cut water rates. The typical household's bill will drop from \$825 a year to around \$600 a year. Cheap public financing, efficient city operators and elimination of tax and profit requirements made this dramatic reduction possible.<sup>368</sup>

The city planned to begin operating the system on the first day of 2009.<sup>369</sup>



## **Recommendations: The Public Can Do It Better**

Not all public officials resort to risky privatization endeavors. In fact, many officials have taken a more responsible approach when confronted with challenging needs. They have worked with public employees to develop creative ways to reduce costs and lessen the burden of rejuvenating their aging water and sewer systems.

### **Local Action: Public Utilities Save Money**

How can municipalities reduce costs?

**Inter-Municipal Cooperation — Public-public partnerships.** This is the most common form of restructuring for public utilities, according to a study of New York State.

- Cooperative investment of funds;
- Mutual aid agreements;
- Contracting with another division or department of government;
- Joint service production to pool resources and labor;<sup>370</sup>
- Bulk orders through cooperative purchasing to reduce chemicals and equipment costs.<sup>371, 372</sup>

### **Technology and Modernization.**

- Predictive, proactive maintenance can save up to 40 percent in maintenance costs.
- Modern inventory and warehousing systems reduce parts and supplies inventory costs, by doing *just in time* deliveries and linking purchasing/warehousing with maintenance management systems.<sup>373</sup>
- Plant upgrades, while costly at first, can pay for themselves over several years, e.g., improved monitoring equipment helps prevent violations and penalties.<sup>374</sup>
- Reusing existing structures saves money, e.g., retrofitting existing buildings.
- Green infrastructure, like interdepartmental green roofs, can save on treatment costs.

### **Government Entrepreneurship.**

- Entrepreneurial sales of goods and services, including laboratory services, to public and private clients bring in additional revenue and help achieve economies of scale.<sup>375</sup>

Utilities should involve their employees in the process of improving operating efficiency. Public employees have experience working the plant, know a great deal about it and undoubtedly have constructive comments about how to run it better.<sup>376</sup>



### Here are several examples of how public utilities have championed innovative cost-cutting measures:

**Ann Arbor, Mich.** The city consolidated a variety of departments, including water and wastewater, into a single public services area. By combining and streamlining cost centers, customer service, administration and planning, the city was able to achieve cost savings of at least 20 percent. With jobs standardized and cross-funded, the city also avoided having to make painful layoffs.<sup>377</sup>

"In a public utility, customers are its shareholders and they should be involved in key decision-making." — Sue McCormick, Ann Arbor's public service areas administrator.<sup>378</sup>

**Lansing, Mich.** The city regionalized its water system to improve quality and keep rates down.<sup>379</sup> Lansing took on the water services of several townships surrounding the city and sold bulk water to others. This customer growth allowed Lansing to achieve greater economies of scale and stabilize water rates.<sup>380</sup> The entire process was all done with great public input. The city created a forum that brought together the affected communities and water experts to have an open discussion. The city also created the Mid-Michigan Water Authority to build trust among all the communities and to enable cooperative projects.<sup>381</sup>

**Ukiah, Calif.** When Ukiah renovated its wastewater treatment plant, it reused existing buildings, instead of tearing them down. This helped to save taxpayers millions of dollars.

"Throughout the upgrade, we've emphasized the reuse of structures and other items. It's pretty phenomenal how much we've been able to save and reuse. We're essentially taking the same structures in place and converting them. It saves millions of dollars over a complete rebuild. ... At every step we utilize and reuse what we can. It reduces the amount of additional water we use, and essentially it's just good business." — Jesse Pagliaro, plant supervisor at Ukiah's wastewater treatment plant.<sup>382</sup>

**Nashville, Tenn.** In 1998, when two corporations descended on Nashville to push the city to privatize its water system, the city council gave the public utility five years to prove itself and reduce costs. It took only a few months for the public operators to meet their rate-reduction goal and cut residential water rates by a quarter. In the first three years, the public utility saved \$8.5 million through reengineering. By 2001, the public utility had already far exceeded expectations and brought the operating budget down to \$65.5 million — \$3 million more than its goal. Nashville rejected privatization because the public was already saving money.

"We were already on the verge of cost savings, so why pay somebody else to do what we were close to accomplishing ourselves?" — David Tucker, assistant director of Nashville's Metro Water Services.<sup>383</sup>

**Kansas City, Mo.** The water services department joined forces with several neighbors to form a multi-county, multi-city purchasing consortium. This allowed the utility to save at least 10 percent on equipment and supply costs. In the first year, it saved 35 percent on the cost of buying a new fleet.<sup>384</sup>

**Miami-Dade County Water and Sewer Department, Fla.** In 1998, the utility partnered with local unions, including AFSCME 121, to stave off privatization attempts.<sup>385</sup> Through the Partnership Optimizing WASH's Efficiency and Reengineering (POWER) program, the department empowered its employees to develop and implement a number of innovative and cost-cutting initiatives. Through fiscal year 2007, the program had produced nearly \$28.8 million in savings,<sup>386</sup> while maintaining or improving services. In 2007, National Association of Clean Water Agencies awarded the Miami-Dade County Water and Sewer Department a Gold Peak Performance Award in recognition of its outstanding compliance record.<sup>387</sup>

### National Action: Public Money for Public Utilities

Although many good public operators have successfully cut costs and improved service for consumers, the nation's water woes are too great for just individual utilities to tackle on their own.

Many cities and towns are finding it difficult to balance their budgets. Their credit ratings are being downgraded, and the price of financing necessary improvements is skyrocketing. They need a cheaper option. Communities need the federal government to step in and help, to provide just a portion of the assistance it has given corporations and banks struggling with the same tumultuous economy.

For the sake of our nation and its future, Congress must renew its commitment to protecting the country's water by establishing a trust fund for clean and safe water and a national infrastructure reinvestment bank. By sidestepping

the contentious appropriations process, the trust fund and infrastructure bank would safeguard our water infrastructure, our environment and our economy.

There are trust funds to support our harbors, our highways and even our botanical gardens. Clean water, a public resource utilized by all communities, certainly deserves the same protection.

A federal water trust fund will provide a steady and reliable source of funding for needed projects across the country. It will enable the country to reach water quality goals uniformly instead of focusing issue by issue. It will address issues equitably, particularly the needs of small and rural communities.

A national infrastructure reinvestment bank will fund larger water projects with regional or national significance and that promote economic growth. Thankfully, President

Barack Obama understands the massive water needs facing the country. His administration supports the proposed infrastructure bank to raise and distribute the money necessary to upgrade the underpinnings of our nation's prosperity, ranging from highways and bridges to water and wastewater projects.

### Tools of the Trade: A Five-Point Guide to Help Fight Privatization in Your Community

Jack Sombati and Greg Coleridge, of Akron's Citizens to Save Our Sewers, offered several words of advice to communities fighting privatization proposals in their communities. Here's what they had to say:

1. **Start early.** "It's so important to start early," said Coleridge. "Don't wait around until the general idea is codified. When the idea was first floated, we started organizing. When people first start talking about — even off-the-cuff — start organizing. You've got to start early."<sup>389</sup>
2. **Set your goal.** Find out who can stop the privatization and how you plan to get them to do that. For example, you might target certain city council members to vote against a deal.
3. **Develop a constituency to pressure the decision maker.** "Get a citizens' group together," said Sombati. "Get the labor unions together. Get the facts. Get the information. There's a wealth of knowledge out there. It's not easy. You have to get the troops out. Citizens will get involved. The African American and Hispanic communities, it's very important to get those groups together. Convince council members. A citizens' movement can stop and win many things, if it's in the interest of their community."<sup>390</sup>
4. **Figure out how you can use the constituency you've organized to influence the decision maker.** "We had debates and community forums with basic education," Coleridge said. An education campaign "fortifies awareness and helps with recruitment." You must act and educate yourself and your community. "You have to have both — they work synergistically," he added.<sup>391</sup>
5. **Contact Food & Water Watch for help with developing your campaign and for information about privatization.** "Food & Water Watch's help in so many ways was instrumental in the formation of Citizens SOS, while we gathered signatures to gain ballot access, and during our campaign once we reached the ballot to educate voters on the pitfalls of privatization," Coleridge said.<sup>392</sup>

However, during the drafting of any infrastructure investment legislation, it would be wise to differentiate between private financing and private control. As written in the 2007 Senate bill, the bank will grant an explicit preference to projects that leverage private financing, "including public-private partnerships,"<sup>388</sup> a code word for a certain type of privatization. While it's good for private investors to buy public bonds and support public endeavors, water projects and water utilities must remain publicly controlled, owned, managed and operated to get the best deal for the taxpayer and the consumer.

Congress must strike the preference for privatization from the infrastructure bank bill. If it fails to remove it, the bank could provide a strong incentive for public utilities to enter into costly and irresponsible contracts with water corporations. While many cities and towns desperately need federal assistance, funding that comes with corporate strings attached could end up costing the public far more than ever expected.

### Conclusions

The turmoil of the foreclosure crisis is washing over municipalities across the nation. Unfunded federal mandates and the tight municipal bond market have left many cities and towns pinching pennies and devising specious privatization schemes.

But, privatization is not the model for economic recovery and water system rejuvenation. From high costs and inefficiency to unaccountable and irresponsible operators, a deluge of problems has swamped communities that turned to the private sector.

Corporations prioritize earnings over quality, and stockholders over consumers. They seek good returns by cutting corners, neglecting maintenance and hiking rates. Then they further pad investor pockets by downsizing the workforce and stripping away worker benefits. Inflated prices, higher household bills and lost jobs are the last thing that families need in these tough economic times.

Congress should not subsidize and incentivize such corporate abuse. The country needs a federal water trust fund and national infrastructure bank to protect our valuable water supplies, but the programs should fund only public utilities and public projects. If taxpayers front the money for these programs, they should be the primary beneficiaries — not foreign investors.

Public money for public utilities is the best way to help the economy recover and to ensure clean, safe and affordable water for generations to come.



## Appendix A: Methodology for Water and Sewer Rate Comparison

### Data Collection

We first searched Web sites of government agencies in every state to find water or sewer rate data. This method produced information for 12 states. Search terms used were a combination of “water,” “sewer,” “wastewater,” “rate,” “rate survey,” “rate comparison,” “bill comparison” and “price.”

**Government Agencies.** We searched the Web sites of the public utility commission and rate advocate in every state to find compiled rate information. Five state agencies — for Alaska, Arizona, New Mexico, West Virginia and Wisconsin — compiled both water and sewer rates. Another five agencies — for New Hampshire, New Jersey, Ohio, Utah and Wyoming — surveyed water rates, while the Maine Public Utilities Commission provided water rates for all utilities in the state. Allegheny County Sanitary Authority, Pa., compiled sewer rates charged by the 83 communities in its service area.

For every state missing data, we looked online for a league of local governments to search their Web sites for rate survey information. Particularly, when the previous search produced the rates of only private utilities, we tried to find complementary rate data of public systems from the state municipal league.

**State Leagues of Local Governments.** From this search, we found municipal rates for three states. The Indiana Association of Cities and Towns and League of Oregon Cities and Texas Municipal League surveyed the rates of their municipal members.

When the above queries yielded no results for a state, a general Internet search was performed to find any other information. Using the same search terms as before, we focused on three general permutations: [state name] and “water and sewer rate survey;” [state name] and “water and wastewater rate survey;” and [state name] and “water rate survey.” This search produced information from engineering consultant firms and universities.

**Engineering Consultants.** Allen & Hoshall (Arkansas, Kentucky, Tennessee), Tighe & Bond (Connecticut, Massachusetts) and Black & Veatch (California) conducted rate surveys. The surveys were not comprehensive and had varying response rates.

**Universities.** This search yielded three other data sources: Southern Illinois University, University of Delaware and University of North Carolina — Chapel Hill.

For two states, we found the rate survey data for municipal utilities but not for private. In these states, North Carolina

and Texas, the rates of a large investor owned utility served as a surrogate to compare with municipal data. North Carolina’s municipal rates were compared with only the rates of Aqua North Carolina, its largest private utility. Aqua North Carolina’s rates were available from the state’s public utilities commission. Likewise, Texas’s municipal rates were compared with only the rates of Texas-American Water, a local subsidiary of American Water, the largest public traded U.S. water corporation. American Water posted the rates it charges in each state on its Web site.

(See tables 5 and 6 on page 33 for details about usage and survey response rates.)

**Determination of Utility Ownership.** Several sources did not indicate utility ownership. In these cases, we used information from state regulatory commissions to determine utility ownership if the state’s commission compiled the cities where regulated private utilities operate. The commissions in four states — Alaska, California, New Hampshire and Ohio — provided this information.

For other states, we identified the ownership of water systems from information in the detailed inventory in the pivot tables of the Safe Drinking Water Information System of the U.S. Environmental Protection Agency.<sup>393</sup> This method identified the ownership of water utilities in six states: Arkansas, Connecticut, Kentucky, Massachusetts, New Mexico and Utah. We analyzed utilities whose ownership was listed as local government or private, and we excluded systems with the owner listed as the federal government, state government, mixed public/private, Native American and not specified.

**Exclusion Criteria.** We excluded source documents when we could not break down rate data by ownership. We had to also exclude data that provided rates for only public utilities or for only private utilities, and where we could not find supplemental data from another source.

### Data Analysis

**Types of ownership.** The analysis focused on comparing the annual residential rates of municipal utilities with those of investor owned utilities. Often, however, the available information did not differentiate the different types of public or private ownership. In these cases, we compared the rates of all public utilities, including regional districts, with the rates of all private utilities, including nonprofit associations. **Note.** For the purposes of this data analysis section, municipal is interchangeable with public, and investor owned is interchangeable with private.

(Continued on next page)

## Appendix A: Methodology for Water and Sewer Rate Comparison

(Continued from previous page)

**Single source preference.** We avoided comparing rates from multiple sources when one source provided both the rates of both public and private utilities. **Exceptions.** For two states, North Carolina and Texas, we did compare rates from a municipal survey with the rates of a larger investor owned utility because the sources were from the same year. We calculated the annual bill using the same volumetric usage (gallons per month).

**Water usage.** When surveys provided average bills at multiple consumption levels, we selected the bills for a usage level closest to 5,000 gallons a month.

**Metered rates.** When systems had both flat and metered rate information, we used the metered rates. When a system only had flat rates, we used the flat rates.

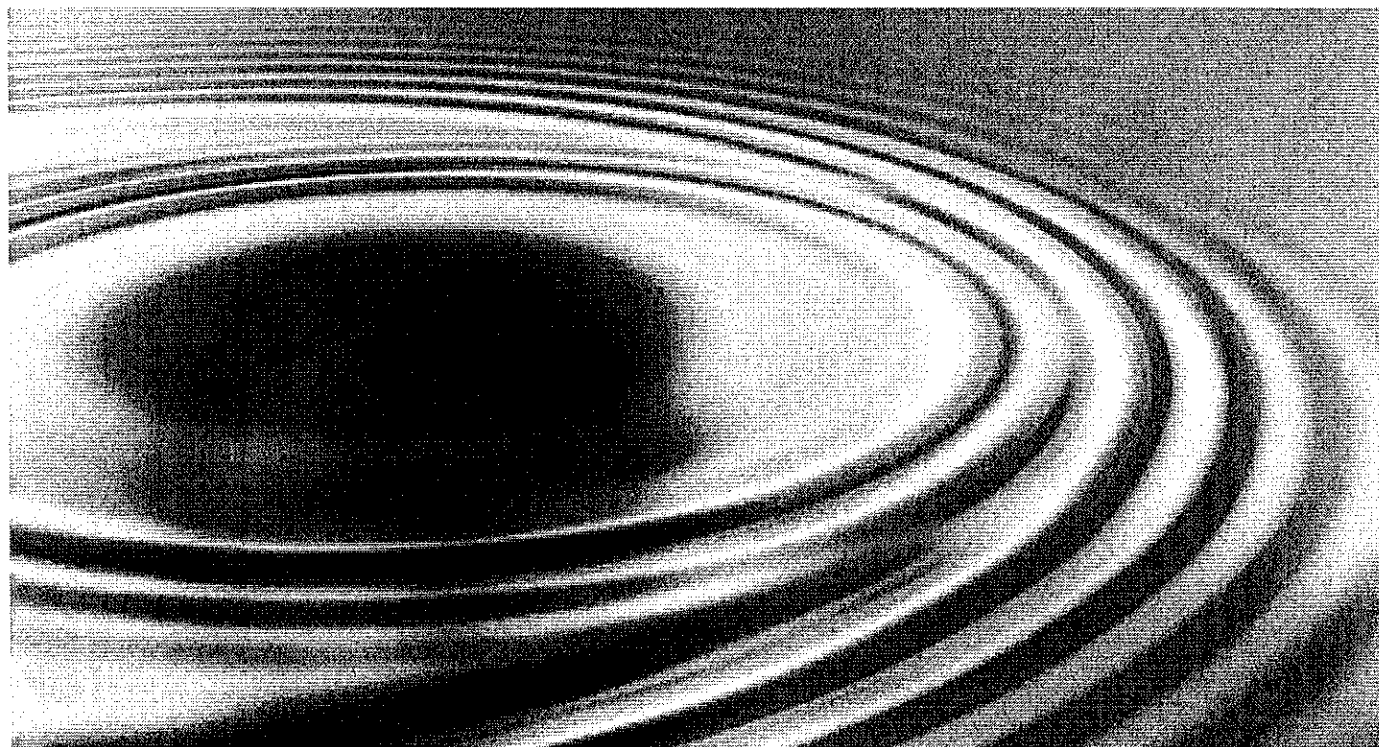
**Annual rates.** For each state or region, we pulled from the source document or calculated the average annual residential bill of municipal utilities and that of investor owned utilities.

When the source document provided the average monthly bill of all municipal utilities and of all investor owned utilities, we multiplied the monthly bill by 12 to find the annual average for each owner type.

Most data sources provided the typical monthly residential bill from each utility. In these cases, we sorted the utilities by ownership and averaged monthly bills of all municipal utilities and of all investor owned utilities. We then multiplied these monthly averages by 12 to find the typical annual bills.

Several sources provided average quarterly bills. For these states, we sorted by ownership and found the average quarterly bill of all municipal utilities and then of all investor owned utilities. We multiplied the quarterly averages by four to find the typical annual bills.

When provided basic rate information (volumetric rate and base rate), we calculated the monthly bill assuming a consumption level of 5,000 gallons a month for each system. We then sorted the utilities by ownership and averaged the bills of all municipal utilities and then the bills of all investor owned utilities. We then multiplied these monthly averages by 12 to find the typical annual bills.



**Table 5. Water Rate Comparison Survey Details**

State	Response rate & system count m=municipal systems, p=private systems	Year	Monthly Usage	Owner Source	Notes
Alaska	All regulated utilities; m=3, p=24	2007	flat or average	PUC	Only regulated utilities
Arizona	Comprehensive (n=423)	2007	5,000	Included	
Arkansas	51% (180/351) m=183, p=21	2008	5,000	EPA	Supplemented with previous year data
California	m=342, p=111	2006	11,000	PUC	
Connecticut	m=36, n=16	2007	6,000	EPA	
Delaware	90% (54/60); m=26, p=3	2004	5,000	Included	
Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin	18% (350/2000) m=177, p=10	2000	6,000	Included	
Indiana	All regulated utilities; m=55, p=40	2008	5,000	Included	
Kentucky	42% (177/425) m=139, p=19	2006	5,000	EPA	
Maine	Comprehensive m=130, p=26	2007	4,987	included	
Massachusetts	m=275, p=11	2006	7,500	EPA	
New Hampshire	89% (114/128); m=98, p=14	2006	8,365	PUC	Only large systems
New Jersey	n=28	1996	average bill	Included	Only large systems, significant difference
New Mexico	m=92, n=2	2007	6,000	EPA	
North Carolina	86% municipal (443/513) m=349, p=16	2008	5,000	Included	Only one corporation — Aqua America
Ohio	76% (432/566) m=377, p=10	2006	7,756	PUC	
Pennsylvania, New Jersey, Maryland	90% (54/60); m=21, p=4	2004	5,000	Included	
Texas	76% TML members (853/1093) m=706, p=1	2008	5,000	Included	Only one corporation — American Water
Utah	70% (322/462) m=181, p=51	2006	5,000	EPA	
West Virginia	Comprehensive m=172, p=56	2008	4,500	Included	
Wisconsin	Comprehensive m=507, p=7	2008	5,000	Included	
Wyoming	m=88, p=13	2007	5,000	Included	

**Table 6. Sewer Rate Comparison Survey Details**

State	Response rate & system count m=municipal systems, p=private systems	Year	Monthly Usage	Owner Source	Notes
Alaska	All regulated utilities (m=4, p=5)	2007	flat or average	PUC	Only regulated utilities
Arizona	Comprehensive (n=130)	2007	5,000	Included	
Indiana	m=347, p=43	2008	5,000	Included	
North Carolina	m=322, p=15	2008	5,000	Included	Only one corporation — Aqua America
Pennsylvania	m=57, p=26	2006	5,000	PUC	Only within the Allegheny County Sanitary Authority service area
Texas	76% TML members (853/1093) m=690, p=1	2008	5,000	Included	Only one corporation — American Water
West Virginia	Comprehensive m=172, p=43	2008	4,500	Included	

## Appendix B: Private Players

### Veolia

**Headquarters:** Paris, France

**Annual revenue:** \$48 billion (including its energy services and public transportation operations)<sup>394</sup>

**U.S. subsidiary:** Veolia Water North America

**Population served:** more than 14 million people

**Locations:** 37 U.S. states, the Virgin Islands, New Brunswick and Ontario.

**Fully owned utilities:** None

**Contract operations:** 600 communities (100% of revenue, \$565 million)

**Corporate details:** Veolia is the largest water and wastewater corporation in the world. Subsidiary Veolia Water North America is the largest private operator of U.S. municipal water and wastewater systems. In 2004, Veolia sold a portion of its industrial services and equipment manufacturing businesses to Munich-based Siemens. Veolia was formerly owned by Vivendi.

### Suez

**Headquarters:** Paris, France

**Annual revenue:** \$70 billion (including its electricity, natural gas and energy operations)

**U.S. subsidiary:** United Water

**Population served:** 7.3 million people

**Locations:** 21 U.S. states.

**Fully owned utilities:** 25 utilities

**Contract operations:** 145 municipal systems (\$216 million in revenue)

**Corporate details:** Suez is the second largest water and wastewater corporation in the world. Its U.S. subsidiary, United Water, is the second largest private operator of U.S. municipal water and wastewater systems. In February 2006, Suez merged with French government-controlled Gaz de France, the largest natural gas supplier in Europe. United Water bought Aquarion Water Company — New York in February 2007 and Aquarion Operating Services in June 2007.

### RWE

**Headquarters:** Essen, Germany

**Annual revenue:** \$63 billion (including its electricity, natural gas, energy, garbage and recycling operations)

**U.S. subsidiary:** American Water

**Headquarters:** Voorhees, New Jersey

**Annual revenue:** \$2.25 billion

**Population served:** 15.6 million people

**Locations:** 32 U.S. states and Ontario, Canada

**Fully owned utilities:** 375 systems (90% of revenue)

**Contract operations:** 185 municipal systems (10% of revenue)

**Corporate details:** RWE was once the world's third largest water corporation. In 2006 it sold Thames Water, its UK subsidiary, to Kemble Water Limited, which is led by Macquarie's European Infrastructure Funds. In Spring 2008 it sold off a minority share of American Water, its U.S. subsidiary, on the U.S. stock exchange. American Water is the largest publicly traded water and wastewater corporation and the fourth largest private operator of municipal water and wastewater systems in the United States.

### Aqua America

**Headquarters:** Bryn Mawr, Pennsylvania

**Annual revenue:** \$602 million

**Population served:** 3 million people

**Locations:** 13 northeast, midwest and southern U.S. states

**Fully owned utilities:** 96%

**Contract operations:** 4%<sup>395</sup>

**Corporate details:** Aqua America is the second largest publicly traded water and wastewater corporation in the United States. It has completed nearly 200 acquisitions in the past 10 years, adding 865,000 new customers, including New York Water Service Corp. for \$51 million in May 2006. Aqua America was formerly called Philadelphia Suburban Corp.

### CH2M Hill

**Headquarters:** Englewood, Colorado

**Annual revenue:** \$5 billion (including its engineering, communications, construction and other municipal and industrial services)

**U.S. subsidiary:** OMI

**Locations:** more than 30 states, Puerto Rico and Canada

**Fully owned utilities:** 0% of revenue

**Contract operations:** more than 100 clients (100% of revenue, \$235 million)

**Corporate details:** CH2M Hill is a multinational consulting firm. Subsidiary OMI is the third largest private operator of U.S. municipal water and wastewater systems.

### California Water

**Headquarters:** San Jose, California

**Annual revenue:** \$367 million

**Population served:** more than 2 million people

**Locations:** California, Washington, New Mexico and Hawaii

**Fully owned utilities:** 95% of revenue

**Contract operations:** 5% of revenue

**Corporate details:** California Water is the third largest publicly traded water and wastewater corporation in the United States and the largest west of the Mississippi River.

### Southwest Water

**Headquarters:** Los Angeles, California

**Annual revenue:** \$217 million

**Population served:** more than 2 million people

**Locations:** 10 U.S. states

**Fully owned utilities:** 100 systems (45% of revenue)

**Contract operations:** 700 contracts (55% of revenue)

**Corporate details:** Southwest Water is the sixth largest private operator of U.S. municipal water and wastewater systems.

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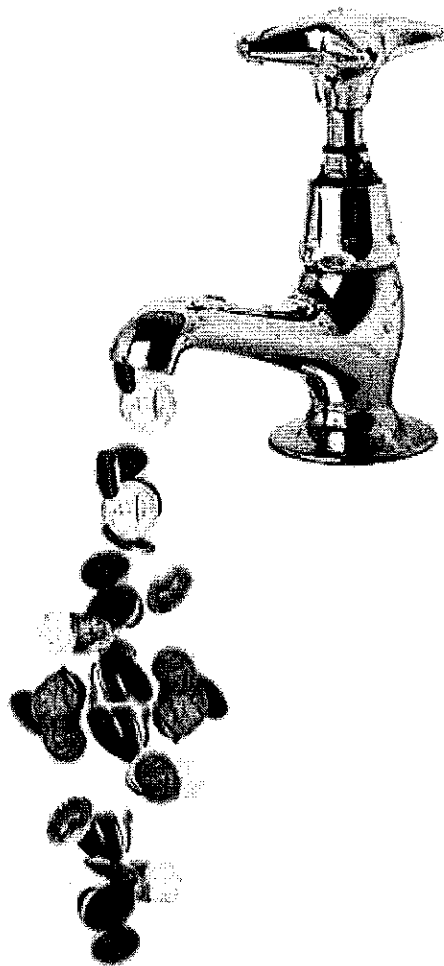


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