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The Risks Posed by Water Privatization

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Congress is currently considering the Voluntary Partnership for Distressed Water Systems Act (S 2596) as part of America's Water Infrastructure Act of 2020. This legislation contains incentives that could compel struggling water systems to enter into risky privatization schemes. Moreover, the bill waives enforcement actions for three years after entering into a privatization contract, with no mechanisms to ensure that the system complies with important water regulations. Water privatization has often proven to be harmful to communities, workers, and the environment, and simply cannot and should not be relied on to help struggling water systems.

While many water systems are in need of improvements and upgrades, corporate control is not the solution to provide long-term sustainable compliance, improved water quality, and equitable and affordable access. Private water corporations seek to extract value from struggling systems by raising rates and, in many cases, cutting corners to reduce operating costs, negatively impacting water and/or service quality. These impacts are particularly felt by low-income and communities of color, since struggling systems disproportionality serve these communities, as described in a recent report by the Thurgood Marshall Institute at the NAACP Legal Defense and Educational Fund.[1] Many decisions, documents, and other important information are shrouded in secrecy, as corporations are not subject to the same transparency and oversight measures and laws as public entities. Moreover, the loss of public control can put corporations in the driver's seat concerning important decisions.

There is a perception that private investment in water systems is "free money" or "new money," but this couldn't be further from the truth. Any financing arrangement or equity contribution from the private partner(s) must be paid back with the very same sources from which all infrastructure is ultimately funded: people. In the case of water, this is through water rates. The cost of capital for private investment in infrastructure projects is typically much more expensive than traditional, tax-exempt public financing, effectively resulting in the public entity taking out an expensive loan from the private company. Water rates must rise to account for improvements made using more expensive financing, as well as corporate profits and shareholder dividends.

This memo outlines a few of the serious risks posed by water privatization deals and provides examples of communities that have dealt with the harmful consequences of water privatization. Water is essential to life. A community's health, safety, and economy are dependent on the ability to access quality water, making water a critical public good that must remain in public hands.

Loss of public control and decision making

Many public-private partnership (P3) contracts include provisions that limit or eliminate the public's ability to make critical decisions related to a public infrastructure asset necessary to improve communities, address inequalities, and tackle climate change. Such contract clauses, which guarantee corporate profits by insulating the company from many revenue risks, limit the government's ability to make policy and planning decisions often decades into the future due to the long length of water privatization contracts. For example, water P3 contracts may specify a minimum number of gallons that the company will charge for, regardless of how much water the community actually uses, disincentivizing the enactment of water conservation policies. In other words, water privatization can give corporations control over important decisions that could have negative impacts on the broader community.

Bayonne, New Jersey

In 2012, Bayonne, New Jersey, entered into a lease agreement of its municipal water system to the multinational water corporation Suez and the private equity firm Kohlberg Kravis Roberts (KKR). Water rates in Bayonne have risen nearly 50 percent since the contract was signed,[2] and residents have so struggled with paying for the rate increase that the city is placing more liens against their homes, which can eventually lead to foreclosures.[3] The private entities originally indicated that water rates would remain the same for the first several years, however, this was not the case. The 40-year contract guarantees Suez and KKR more than half a billion dollars in revenues, so water rates have had to increase to make up the difference between the estimated and actual water usage.[4] The contract uses a "revenue path" model meant to guarantee an 11 percent rate of return for investors for 40 years.[5]

Delaware

In some cases, private water companies may enter into agreements that increase their bottom line but could hurt the surrounding community. In 2019, Artesian, which operates a number of water systems for small communities in Delaware, partnered with a poultry processing company to dispose of their wastewater. Artesian will spray the chicken processor's wastewater on cornfields outside Milton.[6] However, households in the nearby community, many of which are low-income, rely on well water and are concerned that the wastewater will seep into the ground, raising many health and safety risks. Moreover, the state has issued numerous violations to the poultry processing company over a number of years, raising concerns that Artesian's new venture places company growth over the environmental and personal health of many Delaware residents.[7]

Reduced access and affordability

P3 contracts often raise user fee rates and make progressive affordability schemes more difficult to create. In practice, privatized projects have resulted in much higher costs for residents, becoming increasingly unaffordable for lower-income people and thus reducing equitable access. For example, extensive documentation has shown that households typically pay more for water provided by private corporations. In 2015, Food and Water Watch surveyed the 500 largest water systems in the U.S. and found that, on average, private, for-profit utilities charged typical households 59 percent more than local governments charged for drinking water service.[8] In 2017, the University of Delaware Water Resources Center (DWRC), which tracks water rates for public and private water utilities within Delaware, Pennsylvania, New Jersey, and Maryland, found that the average water rate for public water utilities in those states was $6.13 per 1000 gallons, while private utilities charged 44 percent more, for an average rate of $10.90 per 1000 gallons.[9]

Homer Glen, Illinois

Illinois American Water has owned and operated the water system in Homer Glen, Illinois, since 2002. Water rates have steadily increased since. In 2003, rates increased 40 percent. In 2010, rates increased an additional 26 percent, while, in 2017, there was another 15 percent increase. Between these large rate spikes were a number of smaller, yet regular, rate increases. A 2017 *Chicago Tribune* expose found that Illinois American Water and Aqua Illinois, another private water company that operates in the state, charged customers rates that were 20 to 70 percent higher than the rates of publicly managed water systems using the same water from Lake Michigan. The expose found that these companies buy depreciated water systems from municipalities in distress, make some system upgrades, and place the financial burden of the overhaul on ratepayers, while drawing a profit from the regular and steep rate increases. As one resident explained, “We may all be forced out of Homer because no one will be able to afford the water.”[10]

Coatesville, Pennsylvania

The devastating impacts of corporate control of water rates can be seen in Coatesville, Pennsylvania, where in 2001 the city sold its water system to Pennsylvania-American Water Company (PAWC), a subsidiary of American Water, the country’s largest publicly traded water company. In 2010, PAWC increased wastewater rates for Coatesville residents by 216 percent. By 2015, Coatesville households paid an average wastewater bill of $58.50 a month, up from $27.43 in 2010.[11] Since the inception of the privatization deal, wastewater bills have jumped from an average of $15 a month to $58. Water prices increased from $25 to $55 a month. The combined effect is a rate increase between 2001 and 2015 of 282 percent.[12] In a town where over a third of residents live in poverty[13] and about 43 percent of the county's Section 8 recipients reside,[14] these rate increases are especially burdensome. Not only do these inequities fall on socioeconomic lines, but also racial ones. Nearly half of Coatesvile's 13,000 residents are African-American, and almost a quarter are Latino.[15]

In 2015, Jackie Davis, a resident of Coatesville who lived by herself, explained that she was paying about $100 per month for water and sewer. This is the same amount that she used to pay every quarter when three kids were living with her before privatization.[16] City officials knew that rate increases were part of the water sale. However, as Wayne "Ted" Reed who worked for both the City of Chester Authority (CCA), which ran the water utility before the sale, and for PAWC after, explained, "We knew it was coming, we just didn't know how much."[17]

Dillon Beach, California

People on fixed incomes are particularly at risk of water rate hikes causing financial distress. In Dillon Beach, California, water is provided by the private utility, Cal Water. In 2013, many residents' bi-monthly water bills were four to six times as expensive as in neighboring towns where water was provided by the public water district.[18] Older residents on fixed incomes reported extreme water conservation efforts such as only bathing once a week, capturing and reusing water from the shower to wash dishes, and wearing dark clothes to avoid washing out stains.[19] Some residents' efforts to reduce water bills consist of measures dangerous to their health, like cleaning medical equipment less frequently than required.[20] One resident reported that she had to choose between paying her water bill and paying her car loan payment. She let her car get repossessed.[21]

Declines in quality that jeopardize health and safety

Many water privatization deals have been marked by service disruptions and declines in service quality, water quality and safety, conservation efforts, and other critical measures of quality. Many decisions that private water companies make to reduce operating costs are not due to increased efficiencies, but instead are reductions of inputs that can seriously impact and, in the case of struggling systems, further damage water quality and other important system outcomes.

Rockland, New York

In Rockland, New York, the water system is owned and operated by Suez North America. The company charges the highest rates in the state.[22] However, residents complain of frequent service interruptions, metallic tastes, bad smells, and persistent brown, unusable water.[23] In November 2019, residents protested the water quality, citing taste and odor problems with the water provided by Suez.[24]

Plymouth, Massachusetts

In 2016, the Massachusetts attorney general sued the private water company, Veolia, for performance related to their contract with the town of Plymouth.[25] The company failed to properly maintain wastewater mains, which led to a 10-million-gallon raw sewage spill, causing $48 million in damage. In 2019, the town entered into a settlement with Veolia, with the company agreeing to pay $22.8 million for its part in the sewer force main break.[26]

Missoula, Montana

Missoula, Montana, took ownership of its water system in June 2017 after years of frustration with privatization. The water system had been owned by a number of private firms, but most recently had been taken over by the private equity firm, the Carlyle Group, and then by a subsidiary of Algonquin Power & Utilities, a Canadian corporation. Under private ownership, the system leaked half of its water before reaching residents.[27] As the mayor of Missoula explained, the private entities had been raising water rates on Missoula residents while cutting back on maintenance, resulting in a water system that was slowly deteriorating.[28]

Reduced workforce standards

In an effort to contain costs and maximize profits, private entities may skimp on the number or workers, workers' wages and benefits, worker safety measures, and other important workforce standards. Without a sufficient number of well-trained water professionals who are fairly compensated, many of the quality issues discussed above become reality.

New York City, New York

In 2011, Veolia began operating New York City's 14 wastewater treatments plants. To limit operating costs, Veolia reduced the number of skilled sewage treatment workers by 120—which was 20 percent of the workforce. These workers routinely test the water to ensure it meets federal standards and are certified to handle dangerous chemicals used to treat wastewater. Veolia also stopped using the agency's systems and safety protocols, which utilized a buddy-system, when equipment or systems needed repair. The president of the Sewage Treatment and Senior Sewage Treatment Workers Local 1320, which represents workers who operate the wastewater treatment plants, explained that "Deep staff cuts have [the agency] running a bare-bones operation that jeopardizes workers' safety and the environment."[29] In 2016, the city chose not to renew its contract with Veolia.[30]

Atlanta, Georgia

One important cautionary tale is the 1999 privatization of Atlanta's water system. The city signed an agreement with United Water to operate and maintain the city's water system. However, the contract fell apart only four year later with both the city and the company unhappy with the results. Upon taking over the system, the company cut the number of employees almost by 50 percent, from more than 700 to just over 300, while also decreasing the amount of training provided to remaining employees.[31] Service quality declined as the system became inundated with frequent breakdowns, including an epidemic of water-main breaks and occasional "boil only" alerts.[32] The number of work orders and maintenance requests significantly increased in most parts of the system and the company failed to respond to these problems in a timely manner.[33] In turn, the company complained that the system was in further disrepair than they originally understood and that it lost at least $10 million annually. In 2003, both parties walked away from the contract.[34]

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