How privatization increases inequality

Section 2: *Increase in existing user fees*

In the Public Interest • September 2016

Executive summary

Inequality in the United States, which began its most recent rise in the late 1970s, continues to surge in the post–Great Recession era.[1] During similar eras—such as the New Deal—many of the public goods and services we value today were created to deliver widespread prosperity. But the way in which cities, school districts, states, and the federal government deliver things like education, social services, and water profoundly affects the quality and availability of these vital goods and services. In the last few decades, efforts to privatize public goods and services have helped fuel an increasingly unequal society. The report, *How privatization increases inequality*, examines the ways in which the insertion of private interests into the provision of public goods and services hurts poor individuals and families, and people of color.

In the Public Interest's analysis of recent government contracting identifies **five ways in which government privatization disproportionately hurts poor individuals and families**, each of which is explored in greater detail in the report.

This section of the report, *Raising the price of established fees*, describes how residents of jurisdictions that have privatized critical public services such as water or transit have experienced steep increases in their rates—such increases particularly harm low-income residents and those on fixed-incomes. Private control of these public services and assets can allow corporations increased influence in pricing and rate levels. Too often, rate hikes do not translate into improved service quality, but instead pad corporate bottom lines.

Download the full report at **bit.ly/PrivatizationInequality**.

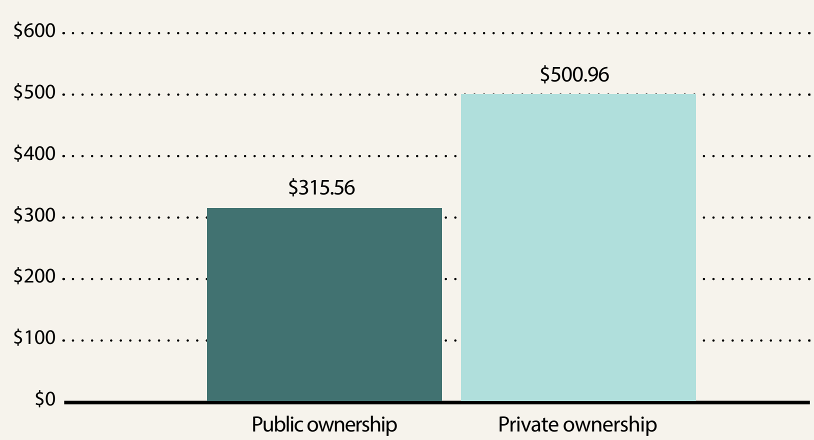
Introduction

When corporations provide public services such as water provision, public transit, and parking, they typically negotiate for as much control as possible over user rates. Allowing corporations to exert this type of influence and control over rates disproportionately impacts poor individuals and families who rely on these assets and services. An increase in a service's price can burden poor residents who must pay the higher rates, which constitute a higher proportion of their income, on an already tight personal budget. The negative impacts of this type of corporate control can even be seen in areas such as education, as the below discussions of General Education Degree (GED) testing and higher education student loans illustrate. Furthermore, increases in rates and fees are often not accompanied with increases in service quality. On the contrary, service quality often declines under privatization, as the increase in user fees pads corporate bottom lines and profits instead of being reinvested in the service.

Water

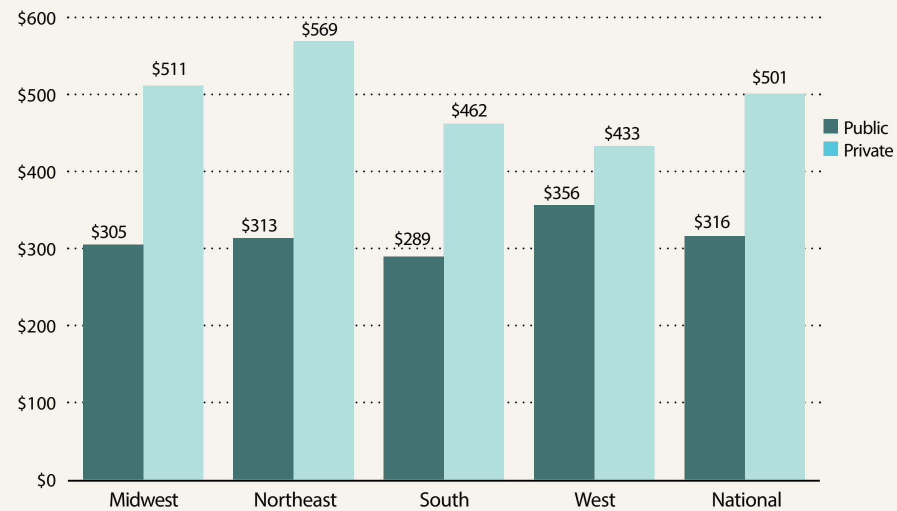
Water is essential to maintaining health and wellbeing, and it is imperative that local governments are able to provide affordable provision of water to all residents. However, there has been extensive documentation of the impacts of privatization on water rates that show that households typically pay more for water provided by private corporations. In 2015, Food & Water Watch, a nonprofit organization, surveyed the country's 500 largest water systems and found that, on average, private, for-profit utilities charged typical households 59% more than local governments charged for drinking water service.[2] As *Figure 1* shows, a typical household, using 60,000 gallons a year, paid $316 for water service from a local government, while the same amount of water from a private company cost $185 extra for an annual cost of $501. The survey also revealed that while average rates for public and private water provision vary in geographic locations across the country, the trend of more expensive privatized water holds true in every part of the country (see *Figure 2*).

Figure 1
Average annual water bill for households using 60,000 gallons a year from the 500 largest U.S. water systems in 2015.



Source: *The State of Public Water in the United States*, Food & Water Watch, February 2016.

Figure 2
Average annual water bill for households using 60,000 gallons a year from the 500 largest U.S. water systems in 2015.



Source: *The State of Public Water in the United States,* Food & Water Watch, February 2016.

The pressures that rate hikes create for poor residents with privatized water can be crushing. People on fixed incomes are particularly at risk. In Dillon Beach, California, water is provided by the private, investor-owned 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.[3] 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 having to wash out stains.[4] Some residents' efforts to reduce water bills are dangerous to their health, like cleaning medical equipment less frequently than required.[5] 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.[6] While residents in this community are paying prohibitively expensive rates for their water, executives for Cal Water are reaping the benefits. In 2013, the CEO of the company received almost $1 million in compensation. By 2015, his compensation package had grown to $2,759,796.[7] In other words, money from residents struggling to pay their water bills is redistributed bottom up to corporations and their highly compensated executives.

The devastating impacts of corporate control of water rates can also be seen in Coatesville, Pennsylvania, where in 2001 the city sold its water system to PAWC, a subsidiary of American Water, the largest publicly traded water company in America. The financially struggling city was offered $38 million up front in exchange for its water and wastewater assets. Proceeds from the sale were to be invested in a trust fund that would generate enough interest to support about 20% of the city's annual expenses. However, over the next decade, the trust fund balance began to disappear as city officials used the money for a number of emergencies and generally mismanaged the fund.

In 2010, PAWC increased wastewater rates for Coatesville residents by 216%. By 2015, Coatesville households paid an average wastewater bill of $58.50 a month, up from $27.43

in 2010.[8] 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 of 282% between 2001 and 2015.[9] In a town where over a third of residents live in poverty,[10] and where about 43% of the county's Section 8 recipients reside,[11] these rate increases are especially burdensome. Beyond falling fall along socioeconomic lines, these inequities fall along lines of race as well. Nearly half of its 13,000 residents are African-American, and almost a quarter are Latino in Coatesville.[12]

Jackie Davis, a resident of Coatesville who lives by herself, explained in 2015 that she pays about $100 per month for water and sewer. This is the same amount that she used to pay every quarter before the city privatized its water system, even with three kids were living with her.[13] 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 the deal explained, "We knew it was coming, we just didn't know how much."[14]

Transit

Public transit is a critical public good that many people rely on to get to work, school, and other important appointments. As with water, privatization of public transit can bring about rate increases that severely impact communities, especially poor residents, who often disproportionately rely on public transit as a main mode of transportation.

On January 1, 2012, the public bus system serving Nassau County, New York, which was renamed the Nassau Inter-County Express (NICE), was privatized. The bus system had been run for decades by the New York Metropolitan Transportation Authority (MTA), but in the face of financial shortfalls, Nassau County officials signed a contract with the private corporation Veolia (the company later merged with Transdev and will be subsequently referred to as Veolia/Transdev) to run the system for $2.6 million per year in an effort to save costs and decrease the County's financial obligation.[15]

While Veolia/Transdev promised not to raise rates in the first year of the contract, riders immediately felt the pinch of reduced routes. Veolia/Transdev reduced service on 30 routes and eliminated several weekend and midday bus lines.[16] The next year, fares increased by $0.25 from $2.25 to $2.50 for the 73% of bus riders who use electronic MetroCards.[17] In September 2014, fares for the remainder of riders using cash also increased to by $0.25 to $2.50.[18] Then in 2015, fares for MetroCard users increased again to $2.75.[19] Cash fares were also hiked again by $0.25 to match the MetroCard rate of $2.75 in January 2016.[20] Nonetheless, even with the fare hikes, and the promise of cost savings with privatization of the transit system, NICE continues to face budget shortfalls. At the beginning of 2016, additional routes were eliminated.[21]

The impacts of both fare increases and route reductions have taken a toll on Nassau County's poor residents, especially because these residents rely heavily on the transit system. A report from the Nassau County Comptroller revealed that the three areas with the highest percentage of households below the poverty line—Hempstead, Freeport, and Westbury—had higher bus ridership rates when compared to the County as a whole.[22] As one organizer for the nonprofit Long Island Bus Riders Union explained at a January 2015 public hearing where a $0.25 fare hike was being discussed, "The hike will force many low-income riders to have to choose between spending an extra $130 [per year] on getting to work, or on heating their homes."[23]

Furthermore, immigrants, many of whom are low-income, are disproportionately impacted as they use bus service at a high rate in Nassau County. For example, data show that Hempstead has the largest Latino population in the County at 44.21% and the largest limited English proficiency (LEP) population at 40%. In Hempstead, 32% of the population uses the bus to get to work or school.[24] Research finds that this trend is present throughout the County.[25] Additionally, data also reveal that 73% of riders take the bus to get to school or work. At Nassau County Community College, more than half of all students are dependent on the bus in order to attend classes. This is significant especially considering that 56% of students are students of color and 61% of students rely on financial aid.[26] Five years into the transit privatization experiment, the system remains in financial uncertainty, while fare increases and service cuts have become a grim reality, especially for the poor communities that must use the service on a daily basis.

City parking meters

In 2009, Chicago signed a 75-year contract with a consortium of global infrastructure investors, MSIP, led by Morgan Stanley Investment Bank (50.1% controlling stake), along with Abu Dhabi Investment Authority (25% stake), and the German-based financial firm Allianz Capital Partners, for the operation of the city's 36,000 parking meters.[27] Chicago received a lump sum payment of $1.2 billion in the deal, but Chicago drivers will pay the private investors at least $11.6 billion to park in the city over the life of the contract.[28]

The contract allowed the private entity to set parking rates, and the city's ceding of this control had immediate impact on parking prices. Shortly after the contract was signed, parking rates increased to $7 for two hours of parking in some parts of the city, and paid parking was extended to seven days a week.[29][30] The contract divided the parking meters into three geographic zones. By 2013, hourly meter rates rose by 117% in the downtown zone, making it the most expensive city in the U.S. for parking. In the business districts, parking meter rates had increased by 300%, and meters in residential zone had increased 700%.[31] Businesses blamed the price increases for a decrease in economic activity.[32] As one owner of a small hardware store explained to the *Chicago Tribune*, "Why come to the hardware store for a 25-cent screw when it costs $1 or $2 to park while you're shopping? People are afraid to come in and get change for the meter because they'll go back to their car and find a ticket."[33] Residents have also complained that parking downtown is cost prohibitive.[34]

The city collected revenues from the parking meters before the privatization deal, netting about $22 million annually. In 2011, after privatization and the implementation of higher rates, MSIP collected more than $80 million in meter revenue.[35] This is a significant change. Not only do residents have to pay a higher rate for parking in the city, but also the rate increases disproportionately impact low- and middle-income residents who pay a higher share of their income to access their city and use an asset that they previously owned. Furthermore, instead of residents' money serving as revenue for the city and being reinvested in ways that have public benefit, that money is redistributed upwards as residents instead pay global investment funds higher user fees. Rate increases and the price of parking at the meters now and decades in the future will not be determined by factors related to city planning or resident needs. Instead, global investment funds can and will price parking to maximize their own return on investment.

It's worth nothing that on top of giving away future cash flows to profit-seeking investment banks, the $1.2 billion lump sum payment only helped with the city's budget problems for a couple of years. By 2012, the money was almost depleted, and Chicago was in a budget hole again without the major revenue-generating asset.[36]

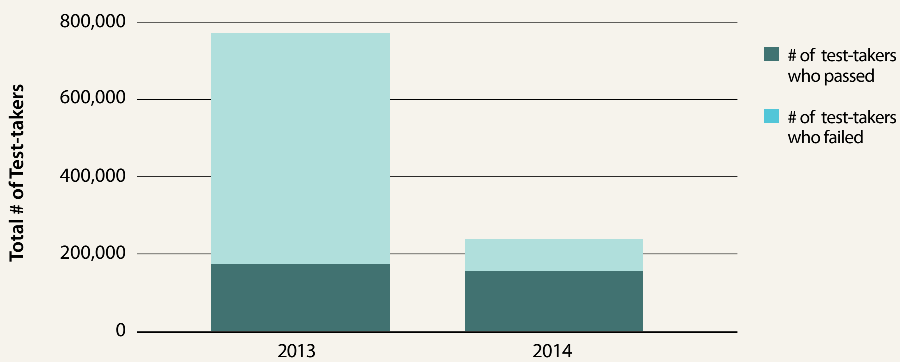
GED testing

One surprising area where privatization has resulted in increased fees is GED testing, the U.S. high school equivalency exam. Since 1942, the nonprofit American Council on Education (ACE) has developed the test and administered it as a public service. It has served as the high school equivalency test for all 50 states.[37] While the test cost has varied state to state, in the recent past it cost on average about $30 to test takers.[38] The low cost made GED testing accessible to millions of people who have taken the exam to gain an important educational credential to rise out of one of the poorest demographics—people without a high school degree. Less than half of all adults without high school degrees have jobs. Research shows that adults without high school diplomas who actually have jobs earn nearly $10,000 less per year than those with a high school degree, and are much more likely to live in poverty, experience poor health, and spend time in prison.[39] Despite the importance of ensuring that the GED is widely available, in 2014, the world's largest for-profit education corporation, Pearson, entered into a partnership with ACE, and essentially took over the design and administration of the exam, privatizing the GED and turning it into a money-making venture.[40]

Pearson made several significant changes to the GED. They rewrote the test, aligning it to Common Core standards; made it a computer-only exam, eliminating the pencil and paper test-taking option; and increased the price of the exam to $120. These changes have had serious impacts to test-takers, whom are disproportionately African American and Latino.[41] The number of people taking the exam and those passing the exam have both plummeted. In 2013, 743,000 people completed the GED test and 560,000 passed. In 2014, after the privatization of the GED, only 248,000 people took the test and only 86,000 passed.

Figure 3

GED testing before and after privatization.



Source: Janet Page-Reeves, University of New Mexico, 'How the Privatization of 'GED' High School Equivalency Degrees has Created New Roadblocks for the Poor," Key Findings, Scholars Strategy Network. September 2015.

Several factors play into these astonishingly dismal numbers. In rewriting the test, Pearson made the test more difficult, focusing more on college readiness, rather than work readiness.[42] Many have criticized the test content for being unnecessarily difficult and poorly worded and designed.[43] However, the difficulty of the test also ensures that some portion of test takers will have to retake the test, guaranteeing the company a stream of repeat customers. As the data above shows, between 2013 and 2014, the test passage rate dropped by an astonishing 90%.

The number of people taking the test has significantly decreased as well. While the difficultly of the Pearson-designed test may have deterred some potential test takers, other factors may be at play. Because the test can only be administered on the computer and must be taken at a Pearson-certified center, people in more rural areas or people without cars or easy access to transportation may find it hard to travel to test locations.[44] Relatedly, preparing for the test requires access to a computer, but many low-income people don't have access to a computer for regular study. Unfortunately, many of the community organizations that provided test-prep services in low-income areas don't have the resources to install computer labs to adequately prepare test takers for the new exam.[45] Adequate preparation for the test is important, since many test takers have been out of school for some time and need to learn or re-learn content.

The increase in price may be affecting the change in the number of test takers. The $120 price tag can be prohibitively expensive for poor adults. As the Santa Fe Community College Director of Adult Basic Education put it, "It might as well be $1,000," since many of the people she works with can't afford the increased cost.[46] Furthermore, Pearson requires online payment for the test, meaning test takers must have a credit card. Cash or money orders are no longer acceptable forms of payment. But, as data has established, lower-income individuals are less likely to have access to credit cards and are more likely to be left out of the traditional banking system,[47] so one of the only options for payment is to purchase single-use credit cards that have a substantial activation fee, adding additional expense for the test taker.[48]

With the hefty $120 price tag, along with the other problems with the new GED, some states are holding off on signing contracts with Pearson for the administration of the test, and instead looking for cheaper alternatives. For example, New York State has stopped using the GED and instead contracts with a Pearson competitor, McGraw-Hill, who provides an alternative test. New York cites the lower cost, which allows the state to subsidize the cost of the exam and offer it to residents for free, and the ability to take the exam using pencil and paper as the main reasons for choosing an alternative to Pearson.[49]

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In the Public Interest would like to thank Jennifer Zelnick, Leigh Dingerson, and Michael McCall-Delgado for their review of this report. We'd also like to thank Terry Lutz for designing this report.