

Trends in Water Privatization



The Post-Recession Economy
and the Fight for Public Water
in the United States





About Food & Water Watch

Food & Water Watch works to ensure the food, water and fish we consume is safe, accessible and sustainable. So we can all enjoy and trust in what we eat and drink, we help people take charge of where their food comes from, keep clean, affordable, public tap water flowing freely to our homes, protect the environmental quality of oceans, force government to do its job protecting citizens, and educate about the importance of keeping shared resources under public control.

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Executive Summary

Confronted with daunting budget shortfalls following the recent economic downturn, various cities and towns across the country have considered cashing out their water utilities to generate revenue. But rather than ease fiscal pressures, the sale or lease of water assets would likely further weaken a locality's long-term financial health and saddle consumers with debt.

Food & Water Watch reviewed 200 prospective and completed sales and concessions over the last two decades and uncovered five aspects of this new trend in water privatization:

- **Many cities and towns explored sales and long-term concessions of their water and sewer systems since 2008.** There were five times as many prospective deals in 2010 as there were completed transactions in a typical year over the previous two decades.
- **Prospective privatizations, if actualized, would affect an unprecedented number of people.** The typical water system put forward for privatization in 2010 served around 45 times more people than the average system sold over the last two decades.
- **Budget constraints drove the surge in potential privatization deals.** Previously, the need for expensive improvements to water infrastructure was the main factor in a municipality's decision to sell or lease its water system. Since 2008, several cities have considered privatizing well-maintained water systems to shore up weak budgets.
- **Possible sales and concessions were clustered around the Rust Belt.** Although the surge in interest was a nationwide phenomenon, prospective deals were concentrated in the Rust Belt, where cities were hit particularly hard by the recession.
- **Strong public opposition hindered privatization.** Public resistance thwarted at least 17 possible sales and concessions from 2008 to 2010 and seemed likely to block many more prospective deals. In fact, despite new attention on the idea, the number of sales and concessions completed each year remained small.

Problems with Sales and Concessions

They saddle consumers with debt. The funding that a city receives by selling or leasing its water system is effectively an expensive loan that a water company will recover from consumers through water bills. A Food & Water Watch analysis estimated that the typical interest rate on this loan would be 11 percent. This is 56 percent more expensive than public financing through a typical municipal revenue bond.

They result in high water rates. A review of the 10 largest sales and concessions surveyed in this report found that water rates increased on average by 15 percent a year after privatization.

Solutions

Many communities have saved money with public operation. Public operation of water and sewer services averaged 21 percent cheaper than private operation, based on a Food & Water Watch review of 18 local governments that stopped contracting and brought water systems in-house.

Sales and concessions of water systems are not a smart recovery plan for distressed local governments. Public officials should pursue more responsible courses of action and avoid such quick fixes that jeopardize long-term financial wellbeing.

Instead of cashing out water assets, governments need to invest in their water systems. The country needs a dedicated source of federal funding to help renovate our water infrastructure.



Introduction

In the wake of the recent economic downturn, many local governments across the United States struggled to balance their budgets as tax revenues fell and expenses grew.¹ The Economic Policy Institute estimated that local budgets would fall \$100 billion short from fiscal years 2010 to 2012.² State and local budgets continued to deteriorate throughout 2010,³ and public officials searched for new revenue sources to avoid deep cuts to the public services that more and more of their constituents relied upon.

A growing number of cash-strapped cities and towns turned to one of their most basic resources: water. They began to explore cashing out or monetizing public water and sewer utilities through a sale or concession* to generate funding to fill budget deficits. Frequently, the suggestion originated from a private water company that desired control of public water services.

In May 2010, Don Correll, then-CEO of American Water, the nation's largest water company, told investors that the fiscal crisis coupled with the need for expensive water system improvements created golden opportunities for privatization. "So the idea of monetizing some assets," he said, "something that was almost heresy some time ago is something that we're seeing far more receptivity to today and we are busy with that as well."⁴

Correll reported that American Water was exploring more than 75 "opportunities" to take over municipal water or

sewer systems, and he considered these prospective deals to be "more than casual."⁵ The company claimed to be in talks with several large cities.⁶ Its targets were clustered on the East Coast and in the Midwest.⁷

Aqua America, another large for-profit water utility, also sought to take advantage of the crisis and contacted thousands of cities about a potential deal. In April 2010, CEO Nick DeBenedictis told *USA Today* that the company was in talks to buy 40 water systems and expected to acquire about 20 by the end of the year.⁸ In August 2010, a day after the company held a strategic board meeting about acquisitions, DeBenedictis told investors that the company was concentrating on buying small systems in states where it already operates, adding, "We're really hustling in this area."⁹

This report explores recent trends in water privatization and examines how the fiscal crisis drove many local governments to consider privatizing their valuable water resources.

* This report — excluding the section about cost savings from public operation — addresses a specific type of lease arrangement called a concession. In a concession, a private company assumes responsibility for all aspects of utility operation, including financial planning, and has a vested financial stake in the profitability of the utility; it collects its earnings directly from consumers. This report does not specifically address the more common type of lease, a long-term management contract, wherein the local government retains responsibility for utility's finances and pays a private operator a management fee.

Trends in Water Privatization

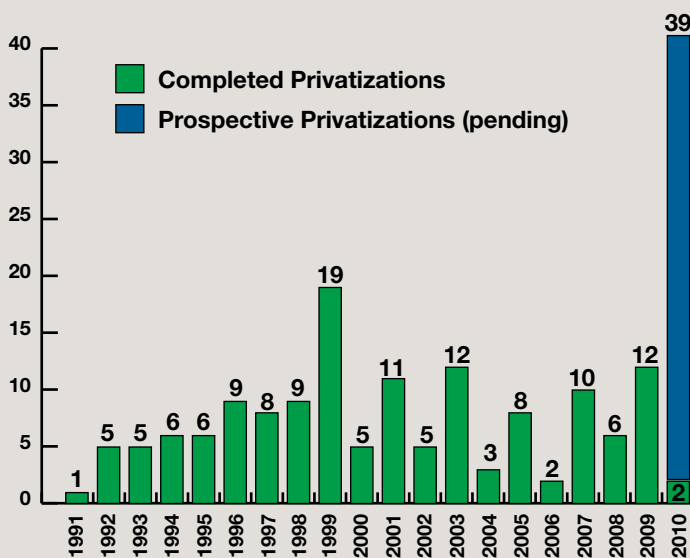
Trend 1: Many local governments explored selling or leasing water systems.

The sale or concession of municipal water systems to private companies is not a new phenomenon, but only a handful of deals occur each year. Although a comprehensive list of these transactions does not exist, a Food & Water Watch analysis reveals that for-profit water utilities bought or leased at least 144 publicly owned water and sewer systems over the 20-year period from 1991 to 2010 (see Table 1 and Appendix A). There were about seven deals a year.

The number of completed transactions has not surged since the financial markets crashed in 2008, but a growing number of local governments has considered privatizing their water and sewer systems. Food & Water Watch found that as of October 2010, at least 39 communities were publicly weighing the possibility of selling or leasing their water infrastructure (see Table 1 and Appendix B). That's more than five times as many systems as were sold or leased in a typical year over the last two decades.

As of October 2010, these possible deals were in various stages of the privatization process. Riley, Ind., for example, had already signed a contract to sell its water system to American Water and awaited state approval,¹⁰ while Chicago was only rumored to be considering a lease.¹¹

Number of Publicly Owned Water and Sewer Systems Sold or Leased to Private Companies (1991 to October 2010)



Note: Not comprehensive; see Appendices A and B for more information.

As of October 2010, at least 39 communities were publicly weighing the possibility of selling or leasing their water infrastructure. That's more than five times as many systems as were sold or leased in a typical year over the last two decades.

Not-for-Profit but Not Public: Selling Water Systems to Nonprofit Utilities

This report focuses on sales and concessions of municipal water systems to private, for-profit companies, but several cities have proposed selling their water utilities to independent nonprofit entities:

- Indianapolis.** In 2010, the mayor of Indianapolis pushed through the sale of the city's water and sewer systems to Citizens Energy Group, a nonprofit public trust, to generate \$425 million in funds for other city infrastructure improvements. Citizens Energy expected to eliminate two dozen or so customer-service jobs after the state approved the purchase.¹²
- Newark.** In 2010, the city council dismissed the mayor's plan to sell the city's water system to an independent municipal water authority and funnel funding from the authority to balance the city's budget. The city had considered several versions of this plan for nearly a decade and public opposition stopped each one in its tracks.¹³
- Cincinnati.** In 2010, the city manager sought to convert the city's water system into a new independent regional water district to generate funding for other infrastructure projects. Numerous community groups, including the local chapter of the NAACP, organized to require public approval before any such transaction could occur.¹⁴

These arrangements avoid many of the financial pitfalls involved in sales to private, for-profit companies because nonprofit utilities can issue tax-exempt debt and do not have to raise rates to make a profit for stockholders. Nonetheless, the deals can result in a loss of local control. Because the public often does not elect the board members that oversee the nonprofit operations, the board can be less accountable than a city council.

Table 1. Findings from Food & Water Watch’s Investigation into Possible Sales and Concessions of 200 Publicly Owned Water and Sewer Systems in the United States

| | Privatization Status | | | Total |
|---|-----------------------------------|---------------------------|---|-----------------|
| | Privatized (1991-October 2010) | Pending (October 2010) | Stopped/Rejected (2008-October 2010) | |
| Number of Systems | 144 | 39 | 17 | 200 |
| Average Population Served By Each System | 6,284 | 282,779 | 96,004 | 67,827 |
| Total Population Served By Every System | 904,894 | 11,028,394 | 1,632,065 | 13,565,353 |
| Range of System Sizes (Population Served) | 18 to 110,000 | 725 to 4,000,000 | 916 to 647,290 | 18 to 4,000,000 |

See Appendices A and B for more information.

Trend 2: Prospective sales and concessions, if actualized, would affect an unprecedented number of people.

Food & Water Watch’s analysis found that as of 2010, cities and towns had considered selling or leasing water systems that averaged 45 times larger than the typical system sold or leased over the previous two decades. Although both large cities and small towns considered water privatization, the average system facing the auction block in 2010 served nearly 283,000 people (see Table 1).

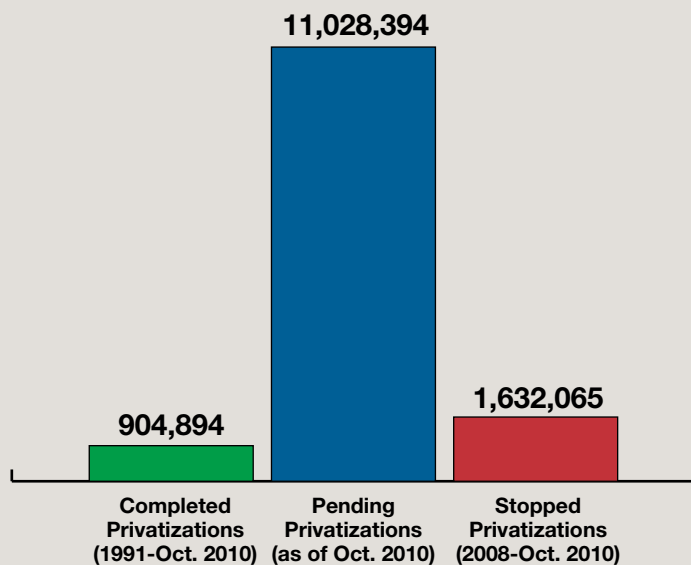
No major city has sold its water system to a private company in the last two decades. During that time, most sales and concessions involved small water systems, serving an average of only 6,284 people. The largest deal was the concession of Elizabeth, N.J.’s water system to American Water in 1998. That system served 110,000 people. That’s less than half the

average size of the water systems posed for privatization in 2010.

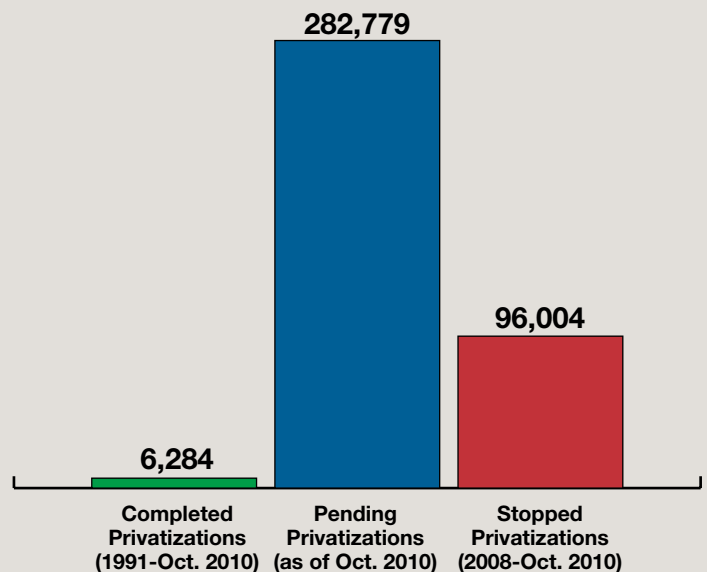
Trend 3: Budget shortfalls drove the surge in prospective water system sales and concessions.

For the last two decades, municipalities usually sold their water systems because they could not afford the improvements necessary to comply with water quality regulations.¹⁵ The fiscal crisis added a new angle on this. While infrastructure needs still played a role in many situations, since 2008, budget deficits became the primary reason that many cities considered selling or leasing their water systems.¹⁶

Total Population Served by Water and Sewer Systems Facing Privatization, by Status



Average Population Size of Water Systems Facing Privatization, by Status



The average population served by publicly owned water and sewer systems that were sold or leased to private companies from 1991 to 2010 and by publicly owned systems considered for sale or lease from 2008 to October 2010. See Appendices A and B for more information.

A Food & Water Watch review of five large cities showed that budget shortfalls were the primary impetus for privatization plans. From Nassau County, N.Y., to San Jose, Calif., local governments suggested selling or leasing water assets to raise money to help fill multimillion-dollar holes in their budget (see Table 2).

Several cities floated the idea of auctioning off their water systems not because the systems were burdens or liabilities, but because they were valuable assets that could fetch a high price. Because of fiscal challenges, even well-run systems in excellent condition faced possible privatization.

Table 2: The Budget Deficits of Five Cities That Considered Selling or Leasing Their Water Systems

| City | Proposition | Projected Budget Deficit |
|---------------------|--|---|
| Milwaukee, Wis. | Concession of Milwaukee Water Works to generate \$30 million a year | \$100 million (2010) ¹⁷ |
| Nassau County, N.Y. | Concession of wastewater system to generate \$125 million a year ¹⁸ | \$343 million (2011) ¹⁹ |
| San Jose, Calif. | Sale or concession of municipal water system, which could “generate millions of dollars of revenue for the City,” according to the mayor’s budget address. | \$116 million (2010-2011) ²⁰ |
| Trenton, N.J. | Sale of water assets serving outlying communities for \$75 million ²¹ | \$55.7 million (2011) ²² |
| Tulsa, Okla. | Concession of water and sewer systems to generate revenue | \$18 million (2011) ²³ |

Pension funds factor in. Privatization could weaken pension funds.

A few cities considered privatizing their water systems to offset losses to their pension funds caused by the recession. Public pensions, however, were not a main reason for local budget deficits on the whole. Contributions to public retirement plans constituted a mere 3.8 percent of state and local budgets in 2008 and were projected to remain a relatively small fraction of local spending through 2014.²⁴

Nonetheless, underfunded pensions were a serious concern for a couple of localities, including Pittsburgh. In a study of 13 large cities nationwide, the Philadelphia Research Initiative found that Pittsburgh’s pension fund was in the worst condition. It could fund only about a third (34 percent) of its commitments. In 2010, fearing a state takeover of the pension system, the city considered privatizing its water and sewer authority, among other ideas.²⁵



A sale or lease of a water system, however, transfers employees to the private sector and reduces the number of employees paying into a public retirement plan. As a result, privatization could undermine public pensions in the long-term. This was a concern in Cincinnati where the city considered turning its water utility into an independent regional district.²⁶

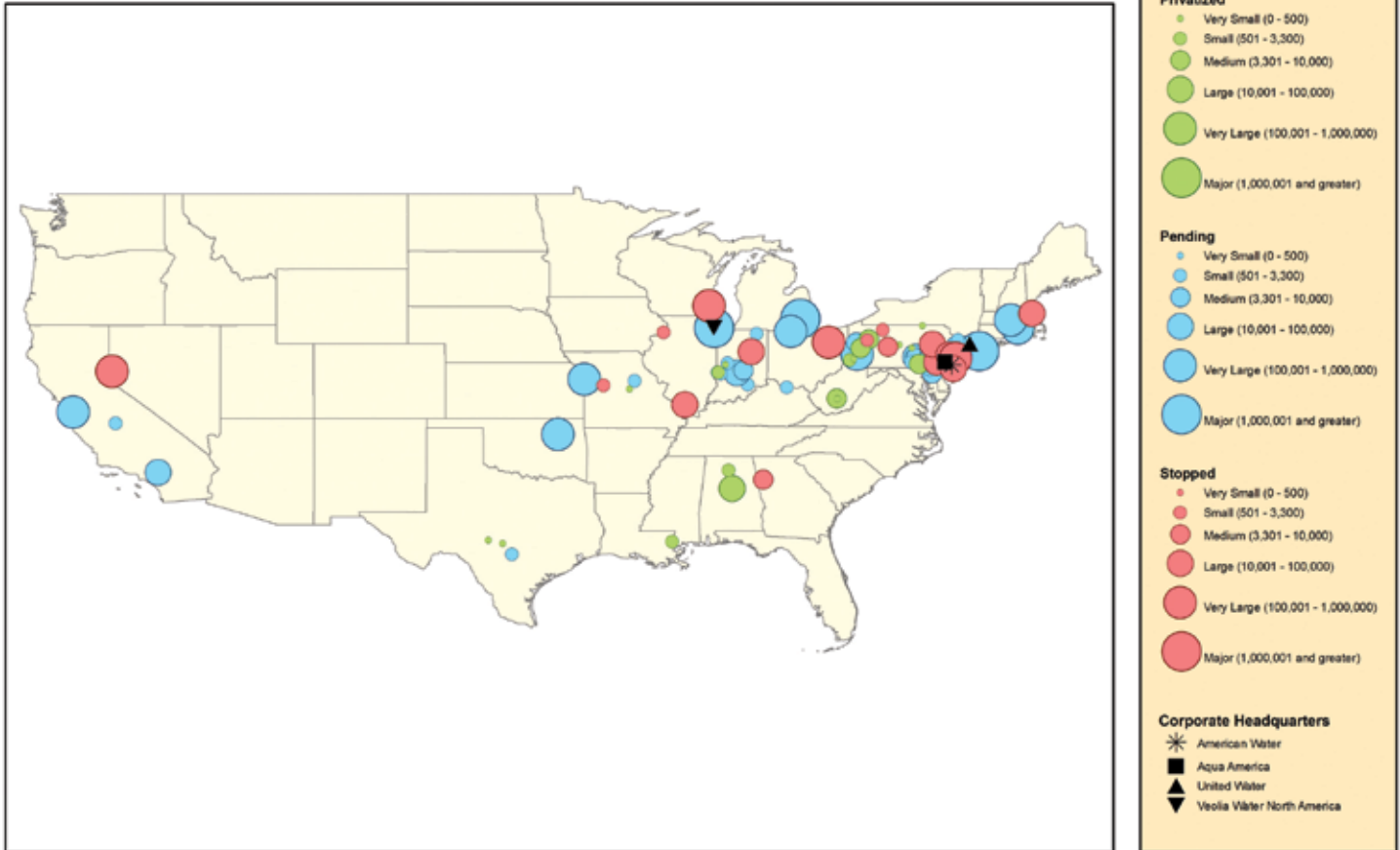
Trend 4: Sales and concessions of water systems are concentrated in the Rust Belt.

Although cities nationwide considered privatizing their water and sewer systems, many prospective deals were found in the Rust Belt. These cities were hit hard by the recession as pension funds diminished in value, tax revenues fell and jobs were lost in the ailing manufacturing and auto industries.

Local governments in the region also recognized the value of their water resources.²⁷ While many parts of the country were water-stressed, the Great Lakes states were water-rich. Veolia Environnement, the world’s largest water company, relocated its North American headquarters to Chicago in 2008.²⁸ It may have positioned itself strategically for concessions in the region.

Pennsylvania and New Jersey in particular have seen many sales and concessions over the years and many possible privatizations since 2008. That could be because three of the largest water companies have their headquarters there: Aqua America in Byrn Mawr, Pa.; American Water in Voorhees, N.J.; and United Water, a subsidiary of Paris-based Suez Environnement, in Harrington Park, N.J.²⁹

Possible Sales and Concessions of Publicly Owned Water and Sewer Systems to Private Companies from 2008 to 2010 (Status as of October 2010)



Map by Mary Grant, Food & Water Watch.

Trend 5: Possible sales and concessions face strong public opposition.

Despite increased attention on water system sales and concessions, the number of transactions completed each year remained small, probably because of public opposition. From 2008 to 2010, consumers and elected officials stopped at least 17 possible deals. Resistance was pronounced in cities both large and small.

Public opposition to water privatization seemed unlikely to wane, and as a result, it should prevent many, if not most, prospective sales and concessions. In a 2010 article in *Public Works Financing*, a trade publication, industry analysts called this political resistance to privatization “potent” and a “formidable obstacle to municipalities looking to explore a sale of their water assets to a private company.”³⁰

In Chicago, community groups began organizing public forums and events to prevent the privatization of their water system soon after the rumor of a possible lease first surfaced in *Public Works Financing*. This early activity may have prevented the idea from gaining traction, but the community remained vigilant throughout 2010 because the city had yet to officially rule out the idea.³¹ Other cities should expect similarly ardent public protest to greet any plan to sell or lease their water and sewer systems.

The Consequences of Sales and Concessions

Consumers opposed selling off their water and sewer systems for good reasons. Privatization comes at a cost and often results in rate increases, which could make water service unaffordable for many community members. For many people, the loss of local public control over such a vital resource is an unsettling proposition.

An Irresponsible Fiscal Approach

Selling a water system to balance the budget fails to address the underlying fiscal problems that created the deficit in the first place, and in many cases, it can further weaken a city's fiscal situation by removing a source of revenue. In the 2010 financial recovery plan for Reading, Pa., financial consultants explained, "This exchange of annual recurring revenue streams or significant capital assets for one-time operating budget solutions is a financial 'worst practice' which is in part responsible for the City's current financial situation."³²

Stephen Goldsmith, the former mayor of Indianapolis and current deputy mayor of New York City, is a major privatization proponent, and he rejects the idea of leasing public assets to balance budgets. "Monetizing a capital investment as a one-time way to close a budget deficit is a bad idea," he said in July 2010.³³

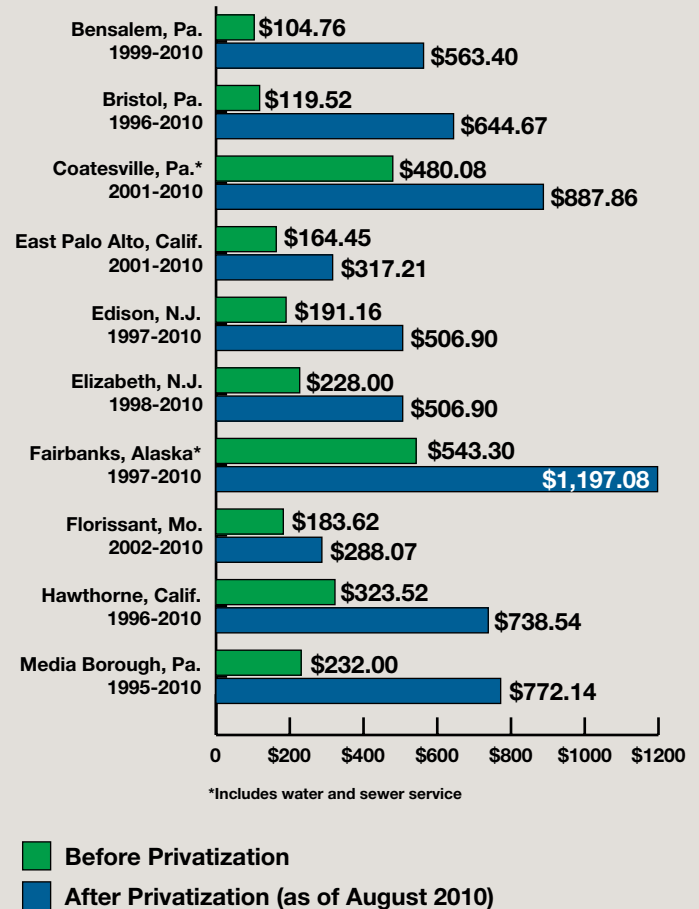
To make matters worse, much like when a person sells an item at a pawnshop, a city is unlikely to be able to cash out the full value of its water system. The consultants for Reading noted this as well: "The current market for transfer of assets is the weakest in years; this would be a particularly bad time to sell."³⁴ The purchase price or concession fee likely would be much less than the actual value of the system.

Sticking Consumers with an Expensive Loan

In a sale or concession deal, a local government's objective is usually to obtain a sizable upfront payment — either the purchase price or concession fee — from the company that takes over the water or sewer system. Public officials tout this income when trying to sway public opinion, but they often fail to publicize that this influx of cash is not free money. It is a loan³⁵ — and an expensive one at that.

An analysis by Food & Water Watch finds that a typical private water utility would charge an interest rate of about 11 percent on this loan (see Appendix C). Municipal bonds are a much cheaper way to finance a project. In the first half of 2010, the average municipal revenue bond had an interest rate of around 5 percent.³⁶ Over a 20-year loan, the public typically would save 36 cents on every dollar in debt

Change in Household Water Bills Following Privatization: The Typical Annual Residential Water Bill Before and After Privatization for the 10 Largest Sales and Concessions Surveyed



payments by using municipal bond financing instead of private financing through a sale or concession.

No efficiency gains with privatization. In general, privatization is unlikely to enhance efficiency or cut the cost of operating water and sewer systems. Most peer-reviewed studies have found that there is no significant difference in efficiency between publicly owned and privately owned water utilities. Researchers conjectured that this could be because of the lack of competition in the water sector; a few large companies dominate the market.³⁷ Regardless of the reason, with efficiency gains unlikely, a water company must recover its investment and profit by cutting services and hiking rates.

High Rates

Water companies are a business, not a charity; they expect to recover their investment through rate increases. A company official told state regulators as much at a Mid-America

Regulatory Conference. In his presentation, Mike Hoffman, the senior manager of financial evaluation and analysis at American Water, explained that a buyer of a water system is “not willing to make [an] investment that it will not be able to recover in rates.”³⁸

Food & Water Watch reviewed the 10 largest surveyed sales and concessions and found that household water rates increased by an average of 15 percent a year over an average of 12 years following privatization. Each year, water companies hiked the typical annual household water bill by an average of \$32, or \$25 after adjusting for inflation (see Table 3).

Water rates are a growing problem in Coatesville, Pa.

In Coatesville, a struggling steel city in southeastern Pennsylvania, soaring water bills have left residents questioning the soundness of the 2001 sale of their drinking water and wastewater systems to American Water. The city saw the sale as a way to generate perpetual funding for city services by investing the proceeds of the sale, some \$39.5 million, into a trust fund. Tough economic times and city spending, however, have drained the trust fund by two-thirds, leaving only \$13 million as of August 2010.⁴⁹

As the community’s financial situation deteriorated, the water system’s new private owner pursued aggressive rate increases. Even though the company agreed to freeze rates for the first three years, residential water and sewer rates have



jumped 85 percent since the systems were sold. The typical annual household water and sewer bill has grown from \$480 (\$591, adjusted for inflation) in 2001 to \$888 in 2010.⁵⁰

In 2010, American Water proposed a 229 percent increase in sewer rates. The city saw this as excessive and budgeted \$40,000 for legal support to fight it.⁵¹ The company claimed to need the hike to recoup the cost of building a new wastewater treatment facility, but consumers and community organizations disagreed and accused the company of overbuilding the plant in order to boost its profits.⁵² At the time, the plant allegedly was operating at only half its capacity.

Table 3: Increase in the Annual Water Bill of a Typical Household after Privatization for the 10 Largest Sales and Concessions Surveyed (Including wastewater charges, where applicable)

| Municipality | Years Elapsed Since Sale | Not adjusted for inflation (nominal dollars) | | | Inflation-adjusted (August 2010 dollars) | | |
|--------------------------------------|--------------------------|--|------------------------|------------------------------|--|------------------|------------------------------|
| | | Total Increase in Annual Bill | Total Percent Increase | Avg. Annual Percent Increase | Total Increase in Annual Bill | Percent Increase | Avg. Annual Percent Increase |
| Bensalem, Pa. ³⁹ | 11 | \$458.64 | 438% | 40% | \$426.22 | 311% | 28% |
| Bristol, Pa. ⁴⁰ | 14 | \$525.15 | 439% | 31% | \$478.60 | 288% | 21% |
| Coatesville, Pa. ⁴¹ | 9 | \$407.78 | 85% | 9% | \$296.51 | 50% | 6% |
| East Palo Alto, Calif. ⁴² | 9 | \$152.77 | 93% | 10% | \$114.65 | 57% | 6% |
| Edison, N.J. ⁴³ | 13 | \$315.74 | 165% | 13% | \$247.08 | 95% | 7% |
| Elizabeth, N.J. ⁴⁴ | 12 | \$278.90 | 122% | 10% | \$201.76 | 66% | 6% |
| Fairbanks, Alaska ⁴⁵ | 13 | \$653.78 | 120% | 9% | \$458.64 | 62% | 5% |
| Florissant, Mo. ⁴⁶ | 8 | \$104.45 | 57% | 7% | \$65.40 | 29% | 4% |
| Hawthorne, Calif. ⁴⁷ | 14 | \$415.02 | 128% | 9% | \$288.73 | 64% | 5% |
| Media Borough, Pa. ⁴⁸ | 15 | \$540.14 | 233% | 16% | \$440.05 | 133% | 9% |
| Average | 12 | \$385.24 | 188% | 15% | \$301.76 | 116% | 10% |

Notes: These are the 10 largest sales and concessions by population served out of the 144 deals compiled by Food & Water Watch. The bills are based on rates charged to general service residential customers as of August 2010, and are calculated using the same household volumetric usage within communities over time. Inflation based on Consumer Price Index, seasonally adjusted August 2010. See Appendices A and D for more information.

In October 2010, the city settled with the company, begrudgingly agreeing to a proposed phased-in rate increase that would bring the typical annual sewer bill from \$329 in 2010 to \$1041 in 2014.⁵³ Water service is becoming unaffordable in the already-struggling Coatesville.

Loss of Local Control

By selling and leasing water systems, local governments abdicate control over a vital public resource. This limits public input into the operation of water and sewer systems. Because water service is a natural monopoly that lacks a true market, consumers can exercise choice only at the ballot box through the election of the public officials who oversee their utility. They don't have a vote in the corporate boardroom.

Problems with state regulation. In most states, a regulatory agency oversees the rates and services of investor-owned water utilities. This regulation, while important, fails to compensate for the loss of local control. With public ownership, residents can visit their elected officials and directly express their opinions about the operation of their water systems. If the officials fail to respond, the community can vote them out of office. The public lacks similar mechanisms to address their concerns with private utilities and appointed regulators.⁵⁴

State regulation of water rates can also have unintended consequences. It often provides a financial incentive for water companies to overinvest in water systems, leading to unnecessarily high water rates. Because regulated companies earn a profit based on the size of their infrastructure investment, they earn more money by building costlier projects.*⁵⁵ For example, consumers in Coatesville, Pa., accused American Water of overbuilding their wastewater plant. In 2010, the company sought to triple household sewer bills, primarily to recover the cost of expanding the treatment facility, which many customers said was operating at only half its capacity.⁵⁶

Conflicting goals. Because a water corporation has different goals than a city does, it will make its decisions using a different set of criteria, often one that emphasizes profitability. This can create conflict. For example, private water companies are unlikely to adopt the same criteria as municipalities when deciding where to extend services. They are prone to cherry-picking service areas to avoid serving low-income communities where low water use and frequent bill collection problems could hurt corporate profits.⁵⁷

Instead, investor-owned utilities often enter into deals with developers to provide water service to new suburban developments.⁵⁸ In some cases, their participation in these

arrangements can facilitate sprawl.⁵⁹ For example, the Brandywine Conservancy believed that American Water's expansion of a treatment plant in Coatesville, Pa., would induce unwanted development.⁶⁰ Because low-density developments require greater capital investments, they can be profitable for private water companies.⁶¹ In contrast, several cities use the provision of water services to encourage smart growth.⁶²

With concessions, local governments and private companies are bound to the terms of a single contract for the full duration of the deal. Inflexibility of concession contracts restricts innovation and responsiveness to changing circumstances. Because no one can predict all the changes that occur over decades, these contracts invariably are incomplete and can require costly renegotiations.⁶³ This could cause conflict.

"If the government ever wanted to change something, the leasee is in [too] strong a position," Aaron Renn, an urban affairs analyst, said in the American Planning Association's *Planning*



* When regulators approve the rates of a private water utility, they must estimate the company's capital costs in order to set an appropriate rate of return, which covers debt expense and corporate profits. Because of the difficulty in determining capital costs, particularly the cost of equity, these estimates are usually off. When the rate of return is greater than the cost of capital, companies have a financial incentive to over-invest in capital improvements. In this case, their profit margin actually grows the more they invest. This is called the Averch-Johnson Effect (named for the economists who discovered it).

magazine. “The longer the lease, the more likely something like this [a conflict with future public needs] will happen.”⁶⁴

Difficult to reverse. These deals are difficult to undo. After selling or leasing their water systems, local governments are generally stuck with the new operator. Private water companies often refuse to sell water systems to municipalities, and in these cases, local governments must pursue lengthy eminent domain proceedings to reclaim public control. Under most circumstances in a concession, assuming no violation of contract provisions, a local government could regain control of its water system only by paying a substantial termination fee, which usually involves repayment of the remaining balance on the concession fee.⁶⁵

In Focus: A Series of Failed Privatization Plans in San Jose

A 2010 directive to evaluate leasing San Jose’s municipal water system met a similar end as the previous seven investigations into that stale idea.

The San Jose Municipal Water System serves about one in 10 people in San Jose, Calif. The city created the municipal system in 1961 when the San Jose Water Company, the investor-owned utility that serves most of the city, did not want to build a pipeline to an outlying area. Ironically, the private company has been trying to take over the municipal system ever since. Over the last 50 years, the company has made several offers to purchase the system and the city has taken up the idea a number of times, but every proposal failed.⁶⁶

The cat-and-mouse game continued into 2010. In March, confronted with a \$222 million five-year structural budget deficit, the mayor directed the city manager and environmental services department to reevaluate leasing the municipal water system.⁶⁷ The San Jose Water Company promptly sent the mayor a letter titled “Budget Deficit Solution Proposal” seeking to buy the system for \$54 million or lease it for \$25 million to \$40 million.⁶⁸ In September 2010, after reading news reports about the San Jose Water Company’s unsolicited offer, Veolia Water sent its own letter to the city expressing interest in leasing the system for “more than \$40 million.”⁶⁹

Over the last decade, the city conducted several privatization studies that cast doubt on the logic of the latest directive:

In 1989, after a private water company offered to buy the municipal system, an outside firm conducted an engineering and economic analysis of a possible sale and determined that public ownership had significantly more advantages.⁷⁰

In 1996, the city auditor’s office reached similar conclusions after evaluating a potential sale at the request of the mayor’s budget office.⁷¹ Based on the cost estimates in that report,

Food & Water Watch calculated that selling the water system would have cost city residents at least \$22 million over 15 years (see Table 4). That year the city council determined that a sale of the water system was not feasible and began exploring other privatization options, including a long-term lease.⁷²

Table 4. Cost Implications of Selling the San Jose Municipal Water System Based on a 1996 Evaluation by the Office of the City Auditor

| Income from sale | |
|---|-----------------------|
| <i>Estimated sale price.</i> The sale proceeds are based on the value of the utility less assets paid for by developers and advances for construction, plus a 20 percent purchase premium and the system’s cash reserves. ⁷³ | \$40,020,000 |
| <i>Debt refunding.</i> This is the cost to retire the existing water-related bonds. ⁷⁴ | - \$10,000,000 |
| <i>Transaction costs.</i> This includes the cost of financial and legal advisors, bond counsel, staffing, call premiums, miscellaneous expenses and an election, needed to establish and implement a sale. ⁷⁵ | - \$3,000,000 |
| Net income to the city | \$27,020,000 |
| Community cost of sale over 15 years | |
| <i>Lost revenue.</i> With continued public operation, the city planned to use \$1.75 million a year in water revenue to pay for general city services. By selling the system, the city would lose that income. ⁷⁶ | - \$26,250,000 |
| <i>Increased cost of water service.</i> Private ownership would have increased service costs by \$22.7 million (11 percent) over 15 years, even though a water company was expected to cut labor costs — through downsizing and decreasing compensation packages — by \$15.4 million. ⁷⁷ | - \$22,700,000 |
| Total community cost | - \$48,950,000 |
| Net community impact over 15 years | - \$21,930,000 |

In 2002, the city manager’s office recommended continued public operation of municipal water system over privatization. The San Jose Water Company was the only respondent when the city solicited bids for a 20-year lease of the municipal water system. The company proposed a 30-year lease with a \$40 million upfront payment to the city, but this proposal did not comply with the city’s specifications, so the city evaluation committee deemed it “non-responsive.”⁷⁸

Nonetheless, the city evaluated the offer and found that customer rates would have increased by an average of 21 percent. While costly for consumers, the lease would have been lucrative for the company’s owners. San Jose Water Company would have recovered its \$40 million investment within 7 years, with the remaining 23 years as gravy, and it would have earned a return on the upfront payment of 14 percent to 17 percent.⁷⁹

The city also compared the management plan of the city's Environmental Services Department to the company's two responsive proposals, which were for the management but not the lease of the system. It found that private operation, including transaction costs, would have cost \$12.5 million to \$24.9 million (20 percent to 40 percent) more than public operation over 20 years.⁸⁰

The city had little reason to believe that the economics of leasing its water system had changed substantially over the last decade. For example, the San Jose Water Company admitted in its 2010 letter of interest that if it were to buy the municipal water system, it would increase the city's water rates over several years to the level it charges its other customers. In 2010, the company charged 29 percent more than the city.⁸¹

Privatization wasn't worth it. In November 2009, the city council ruled out auctioning off the water system, opting instead to pursue transferring water revenue directly to the city's general fund.⁸²

Another Nationwide Phenomenon: Saving Money with Public Operation

For some cities, the fiscal crisis triggered the beginning of water privatization, and for others, its end. From Evansville, Ind., to Cave Creek, Ariz., local governments across the country exited private contracts and brought water services in-house to save millions of dollars. With local finances in dire straits, these municipalities decided to cut out the wasteful spending associated with privately run water systems.

Table 5. Cost Savings With Public Operation of Water and Sewer Systems: A Survey of 18 Local Governments

| Location | Years Privatized | Last Private Operator (Parent Company) | System | Private Cost | Savings | |
|---|------------------------------------|--|---|--------------|-------------|------------------|
| Biddeford, Maine ⁸³ | 1991-2009 | OMI (CH2M Hill) | Wastewater treatment plant | \$1,285,179 | \$150,000 | 12% |
| Cave Creek, Ariz. ⁸⁴ | 2007 ^a -2008 | American Water | Water system | \$4,629,503 | \$1,335,017 | 29% |
| Durham County, N.C. ⁸⁵ | 1993-2009 | United Water (Suez) | Sewer system | \$2,421,783 | \$850,460 | 35% |
| Evansville, Ind. ⁸⁶ | 1992-2010 | EMC (American Water) | Sewer system | \$13,200,000 | \$2,737,522 | 21% |
| | 1997-2010 | American Water | Water system | | | |
| | Combined (water and sewer systems) | | | | | |
| Fairfield-Suisun Sewer District, Calif. ⁸⁷ | 1976-2008 | United Water (Suez) | Wastewater treatment plant | \$7,691,175 | \$963,539 | 13% ^b |
| Gary, Ind. ⁸⁸ | 1998-2010 | United Water (Suez) | Wastewater treatment plant | \$16,000,000 | \$8,000,000 | 50% |
| Horn Lake, Miss. ⁸⁹ | 1992-2008 | Southwest Water | Water and sewer systems | \$660,000 | \$240,000 | 36% ^c |
| Houston, Texas ⁹⁰ | 1996-2007 | American Water | Southeast water treatment plant | \$22,000,000 | \$2,800,000 | 13% |
| | 2001-2008 | MWH Constructors | Northeast water purification plant | | | |
| | Combined (both treatment plants) | | | | | |
| Lampasas, Texas ⁹¹ | 1995-2010 | OMI (CH2M Hill) | Water and sewer systems | \$4,506,478 | \$522,278 | 12% |
| Leander, Texas ⁹² | 1991-2010 | Southwest Water | Water and sewer systems | \$840,000 | \$200,000 | 24% |
| Liberty, Mo. ⁹³ | 1995-2010 ^f | OMI (CH2M Hill) | Water treatment plant | \$1,593,337 | \$249,647 | 16% |
| North Adams, Mass. ⁹⁴ | 1992-2010 | United Water (Suez) | Water filtration plant | \$285,000 | \$35,000 | 12% |
| O'Fallon, Mo. ⁹⁵ | 1984-2009 | Alliance Water | Water and sewer systems | \$3,367,665 | \$500,000 | 15% |
| Petaluma, Calif. ⁹⁶ | 1979-2008 | Veolia | Water recycling plant | \$9,382,615 | \$1,578,648 | 17% ^d |
| Sioux City, Iowa ⁹⁷ | 1982-2010 | American Water | Wastewater treatment plant | \$6,783,497 | \$1,000,194 | 15% |
| Skaneateles, N.Y. ⁹⁸ | 1993-2010 | Severn Trent | Wastewater treatment plant | \$117,000 | \$30,000 | 26% |
| Surprise, Ariz. ⁹⁹ | 1997-2009 | American Water | Water system | \$25,000,000 | \$5,000,000 | 20% ^e |
| Webb City, Mo. ¹⁰⁰ | 2006-2010 | OMI (CH2M Hill) | Center Creek wastewater treatment plant | \$219,000 | \$44,000 | 20% |
| Average | | | | | | 21% |

Notes
a The city purchased a water system from a private company in 2006 and another system in 2007; then it contracted out the service to another private company.
b Savings based on expected increased private profit level of 15 percent; savings over 2008 contract budget estimated to be 4 percent.
c Savings estimated to be between 36 percent and 55 percent (\$360,000 a year); conservative estimate was used.
d Estimated savings over the first three years
e Savings over the first five years
f Expected to end in 2010



Public operation of water and sewer systems averaged 21 percent cheaper than private operation, according to a Food & Water Watch review of 18 local governments that ended contracts with private operators since 2007 (see table 5). For Sioux City, O’Fallon, Petaluma and Fairfield-Suisun, the return to public operation came after more than two decades of private control.

Several cities found that public management can simultaneously cut costs and improve performance. Cave Creek, Ariz., reported in its 2009 financial report, “During the fiscal year the Town managed and operated its water system eliminating an operating contract with a private company and improving operations while reducing operating costs.”¹⁰¹

Evansville, Ind., expected to save \$14 million over five years with public operation. The city’s utility director planned to use the savings to repair equipment that was not properly maintained under private management and to minimize water rate increases.¹⁰²

With effective local oversight and public involvement, publicly run water systems can achieve cost savings not possible under private operation. Public control eliminates overhead expenses associated with profits and taxes, and it ensures that funding spent on water infrastructure is reinvested into the community and supports good jobs for residents. Municipalization of water and sewer services can provide a simple way to chip away at the budget shortfalls facing too many of our nation’s cities and towns.

Conclusions

Despite recent attention, sales and concessions of municipal water and sewer systems to private companies remain infrequent in the United States. Only a handful of deals occur each year, but interest is growing, as cities increasingly want to squeeze revenue from their water systems to balance deepening budget deficits. This is a flawed approach.

Cash-strapped cities and towns will not resolve their fiscal woes by turning water and sewer systems over to private interests. As public officials determine how to cut the growing budget deficits beleaguering many local governments, they must avoid superficial solutions, such as auctioning off water utilities, which can have lasting consequences. It can result in greater long-term costs for the public, and it saddles generations of consumers with debt paid off through rate hikes.

Responsible public operation can help keep costs down for consumers. With water systems aging, however, communities nationwide must make the expensive improvements to protect water resources. Even the best-managed utilities may require additional funding to replace water mains and upgrade treatment technology.

The country needs a dedicated source of federal funding to help municipalities renovate their water infrastructure. A renewed federal commitment can help ensure that every community has safe, clean and affordable water service for generations to come.

Appendix A: Completed Sales and Concessions of Municipal Water Systems

Food & Water Watch compiled data about sales and concessions of publicly owned water and sewer systems to private, for-profit companies. Although comprehensive information is not available, this list aimed to be extensive. It includes sales from towns, cities, counties and public water districts.

Information was compiled primarily from these sources:

- Corporate filings with the U.S. Securities and Exchange Commission;
- Corporate filings with state public utilities commissions;
- Corporate websites and press releases;
- LexisNexis news searches for terms (municipal water system or sewer system or wastewater system) and (acquisition or acquired or purchase or sale or sold or concession) and (water company)

Notes about the population figures

The population served was the total number of people served by the water system at the time of privatization, except when contemporaneous figures were unavailable. Food & Water Watch used the Environmental Protection Agency's Safe Drinking Water Information System to find the population size of a number of drinking water systems. Usually the database provided the population size of the water system when it closed, following the sale. In a few cases, the water system was still active, so the population size in 2010 was used.

For a few sewer systems, information was available about the number of customers served but not the total population served. (A residential customer is a household or other housing unit that receives a bill.) In these cases, the population figure was estimated based on the number of customers served and the average household size in the area. This methodology could have overestimated the population when the customer base includes both residential and commercial users.

| Municipal Water and Sewer Systems Sold or Leased to Private Companies from 1991 to 2010 | | | | | | |
|---|--|-------|--|---|------|-------------------|
| Year | Seller | State | System | Most Recent ^a Private Owner (parent company) | Type | Population Served |
| 1991 | Aberdeen ¹⁰³ | NJ | Water system | American Water | Sale | 10,000 |
| 1992 | Buchanan County Public Water Supply District No. 2 ¹⁰⁴ | MO | Water system | American Water | Sale | 4,692 |
| 1992 | Mendham ¹⁰⁵ | NJ | Water system | American Water | Sale | 5,000 |
| 1992 | Union Beach ¹⁰⁶ | NJ | Union Beach Water System | American Water | Sale | 6,000 |
| 1992 | Uwchlan Township ¹⁰⁷ | PA | Water system | Aqua America | Sale | 17,500 |
| 1992 | West Whiteland Township ¹⁰⁸ | PA | Water system | Aqua America | Sale | 2,500 |
| 1993 | Allenhurst Borough ¹⁰⁹ | NJ | Water system | American Water | Sale | 1,000 |
| 1993 | Malvern Borough ¹¹⁰ | PA | Water system | Aqua America | Sale | 3,000 |
| 1993 | Summit Township ¹¹¹ | PA | Summit Township Municipal Authority water system | American Water | Sale | 260 |
| 1993 | Washington Public Service District ¹¹² | WV | Water system in Tornado | American Water | Sale | 5,500 |
| 1993 | West Fork River Public Service District ¹¹³ | WV | Water system | American Water | Sale | 4,000 |
| 1994 | Chesterton ¹¹⁴ | IN | Chesterton Utilities water system | American Water | Sale | 8,490 |
| 1994 | Gregg Township ¹¹⁵ | PA | Municipal Authority of Gregg Township water system | American Water | Sale | 300 |
| 1994 | Highlands Borough ¹¹⁶ | NJ | Water system | American Water | Sale | 9,000 |
| 1994 | Ralpho Township ¹¹⁷ | PA | Ralpho Township Municipal Authority Water System | Aqua America | Sale | 1,800 |
| 1994 | Seven Valleys Borough ¹¹⁸ | PA | Seven Valleys Municipal Water System | York Water Company | Sale | 525 |
| 1994 | Southeast Morris County Municipal Utilities Authority ¹¹⁹ | NJ | Brookside water system in Mendham Township | American Water | Sale | 800 |
| 1995 | East Prospect ¹²⁰ | PA | East Prospect Water Authority water system | York Water Company | Sale | 568 |
| 1995 | Media Borough ¹²¹ | PA | Water system | Aqua America | Sale | 40,000 |
| 1995 | Miami Conservancy District ¹²² | OH | Franklin Area Wastewater Treatment Facility | Veolia | Sale | 25,000 |
| 1995 | Phoenixville Borough ¹²³ | PA | Schuylkill Township water system | Aqua America | Sale | 1,800 |

| Municipal Water and Sewer Systems Sold or Leased to Private Companies from 1991 to 2010 | | | | | | |
|---|--|-------|--|---|------------|-------------------|
| Year | Seller | State | System | Most Recent ^a Private Owner (parent company) | Type | Population Served |
| 1995 | Townsend, Town of ¹²⁴ | DE | Water system | Artesian Resources | Sale | 1,500 |
| 1995 | Winfield, Town of ¹²⁵ | WV | Water system | American Water | Sale | 1,300 |
| 1996 | Ansted, Town of ¹²⁶ | WV | Water system | American Water | Sale | 1,812 |
| 1996 | Bristol Borough ¹²⁷ | PA | Bristol Borough Authority water system | Aqua America | Sale | 30,000 |
| 1996 | Buffalo ¹²⁸ | WV | Water system | American Water | Sale | 1,235 |
| 1996 | Hatboro Borough ¹²⁹ | PA | Hatboro Borough Authority water system | Aqua America | Sale | 13,000 |
| 1996 | Hawthorne ¹³⁰ | CA | Water system | California Water Service Group | Concession | 37,000 |
| 1996 | Howell Township ¹³¹ | NJ | Howell Township Municipal Water System | American Water | Sale | 18,000 |
| 1996 | Jefferson Borough ¹³² | PA | Jefferson Borough Water Works water system | York Water Company | Sale | 613 |
| 1996 | Morris Township ¹³³ | PA | Morris Township Municipal Water Authority water system | American Water | Sale | 831 |
| 1996 | Pinch Public Service District ¹³⁴ | WV | Pinch Public Service District water system | American Water | Sale | 4,104 |
| 1997 | Bancroft, Town of ¹³⁵ | WV | Water system | American Water | Sale | 1,400 |
| 1997 | Culloden Public Service District ¹³⁶ | WV | Culloden PSD water system | American Water | Sale | 3,305 |
| 1997 | Cupertino ¹³⁷ | CA | Water system | San Jose Water Company | Concession | 14,207 |
| 1997 | Edison ¹³⁸ | NJ | Water system | American Water | Concession | 35,000 |
| 1997 | Fairbanks ¹³⁹ | AK | Fairbanks Municipal Utilities System water and sewer systems | Corix | Sale | 34,000 |
| 1997 | Mossy Public Service District ¹⁴⁰ | WV | Water system | American Water | Sale | 568 |
| 1997 | Perkiomen Township ¹⁴¹ | PA | Water system | Aqua America | Sale | 1,500 |
| 1997 | Putnam Union Public Service District ¹⁴² | WV | Water system | American Water | Sale | 2,941 |
| 1998 | Clarion Township ¹⁴³ | PA | Clarion Township General Authority water system | American Water | Sale | 903 |
| 1998 | Elizabeth ¹⁴⁴ | NJ | Water system | American Water | Concession | 110,000 |
| 1998 | Farmersburg ¹⁴⁵ | IN | Water system | American Water | Sale | 1,868 |
| 1998 | Lashmeet Public Service District ¹⁴⁶ | WV | Water system | American Water | Sale | 2,050 |
| 1998 | Mequon ¹⁴⁷ | WI | Mequon Water Utility water system | Wisconsin Gas ^a | Sale | 1,403 |
| 1998 | Mountville Borough ¹⁴⁸ | PA | Water system | Columbia Water Co. | Sale | 1,750 |
| 1998 | Shiloh Village ¹⁴⁹ | IL | Water system | American Water | Sale | 4,000 |
| 1998 | Taylor Township ¹⁵⁰ | PA | Taylor Township Municipal Authority water system | American Water | Sale | 1,345 |
| 1998 | West Chester Borough ¹⁵¹ | PA | West Chester Area Municipal Authority water system | Aqua America | Sale | 23,500 |
| 1999 | Applewold Borough ¹⁵² | PA | Water system | American Water | Sale | 385 |
| 1999 | Bensalem Township ¹⁵³ | PA | Water system | Aqua America | Sale | 60,000 |
| 1999 | Big Sandy Water Public Service District ¹⁵⁴ | WV | Water system | American Water | Sale | 1,013 |
| 1999 | Bradley Village ¹⁵⁵ | IL | Water system | Aqua America | Sale | 4,500 |
| 1999 | Center Township ¹⁵⁶ | PA | Water system | American Water | Sale | 2,412 |
| 1999 | Boone County Public Service District ¹⁵⁷ | WV | Coal River Public Service District water system | American Water | Sale | 5,040 |
| 1999 | Boone County Public Service District ¹⁵⁸ | WV | Spruce Fork Public Service District water system | American Water | Sale | 503 |
| 1999 | Boone County Public Service District ¹⁵⁹ | WV | Van Public Service District water system | American Water | Sale | 2,743 |
| 1999 | Chester Borough ¹⁶⁰ | NJ | Water system | American Water | Sale | 1,500 |
| 1999 | East Marlborough Township ¹⁶¹ | PA | Water system | Aqua America | Sale | 500 |
| 1999 | Elk Two-Mile Public Service District ¹⁶² | WV | Water system | American Water | Sale | 1,273 |
| 1999 | Guthrie Public Service District ¹⁶³ | WV | Water system | American Water | Sale | 788 |

Trends in Water Privatization: The Post-Recession Economy and the Fight for Public Water in the United States

| Municipal Water and Sewer Systems Sold or Leased to Private Companies from 1991 to 2010 | | | | | | |
|--|--|-------|--|---|------------|-------------------|
| Year | Seller | State | System | Most Recent ^a Private Owner (parent company) | Type | Population Served |
| 1999 | Independence Township ¹⁶⁴ | PA | Independence Township Municipal Authority Water system | American Water | Sale | 1,350 |
| 1999 | Jumping Branch-Nimitz Public Service District ¹⁶⁵ | WV | Water system | American Water | Sale | 885 |
| 1999 | Koppel Borough ¹⁶⁶ | PA | Water system | American Water | Sale | 1,125 |
| 1999 | New Wilmington Borough ¹⁶⁷ | PA | New Wilmington Municipal Authority and Wilmington Borough jointly owned water system | Aqua America | Sale | 140 |
| 1999 | Railroad Borough ¹⁶⁸ | PA | Water system | York Water Company | Sale | 310 |
| 1999 | Riverside Public Service District ¹⁶⁹ | WV | Water system | American Water | Sale | 132 |
| 1999 | Salt Rock Water Public Service District ¹⁷⁰ | WV | Water system | American Water | Sale | 4,350 |
| 2000 | Franklin Township ¹⁷¹ | PA | Water system | American Water | Sale | 800 |
| 2000 | Salem-Gatewood Public Service District ¹⁷² | WV | Water system | American Water | Sale | 1,935 |
| 2000 | Strattanville Borough ¹⁷³ | PA | Water system | American Water | Sale | 747 |
| 2000 | Summit County ¹⁷⁴ | OH | Green City water system | Aqua America | Sale | 4,200 |
| 2000 | West Covina ¹⁷⁵ | CA | Water system | Southwest Water | Sale | 20,500 |
| 2001 | Aroma Park ¹⁷⁶ | IL | Water system | Aqua America | Sale | 2,100 |
| 2001 | Butler Township ¹⁷⁷ | PA | Butler Township Area Water and Sewer Authority water system | American Water | Sale | 2,135 |
| 2001 | Chalfont Borough ¹⁷⁸ | PA | Water system | Aqua America | Sale | 8,000 |
| 2001 | Coatesville ¹⁷⁹ | PA | City of Coatesville Authority water and sewer systems | American Water | Sale | 25,000 |
| 2001 | East Palo Alto ¹⁸⁰ | CA | Water system | American Water | Concession | 28,000 |
| 2001 | Eleanor Town ¹⁸¹ | WV | Water system | American Water | Sale | 1,345 |
| 2001 | Killingly Industrial Park ¹⁸² | CT | Killingly Industrial Park Municipal Water System | Connecticut Water | Sale | 175 |
| 2001 | Mahoning Township ¹⁸³ | PA | Water system | Aqua America | Sale | 50 |
| 2001 | Manville Borough ¹⁸⁴ | NJ | Water system | American Water | Sale | 11,500 |
| 2001 | Media Borough ¹⁸⁵ | PA | Sewer system | Aqua America | Sale | 15,000 |
| 2001 | Valley Park ¹⁸⁶ | MO | Water system | American Water | Sale | 3,600 |
| 2002 | Bolingbrook Village ¹⁸⁷ | IL | Water system | American Water | Sale | 24,564 |
| 2002 | Florissant ¹⁸⁸ | MO | Water system | American Water | Sale | 38,046 |
| 2002 | Middlebury Town ¹⁸⁹ | CT | Water system | Connecticut Water | Sale | 600 |
| 2002 | Webster Groves ¹⁹⁰ | MO | Water system | American Water | Sale | 23,095 |
| 2002 | White Haven Municipal Authority ¹⁹¹ | PA | Water and sewer systems | Aqua America | Sale | 3,000 |
| 2003 | Commerce City ¹⁹² | CA | Water system | California Water Service Group | Concession | 1,333 |
| 2003 | Connoquenessing Borough ¹⁹³ | PA | Connoquenessing Borough Authority water system | American Water | Sale | 1,551 |
| 2003 | Grant Park Village ¹⁹⁴ | IL | Water system | Aqua America | Sale | 1,500 |
| 2003 | Indianola Village ¹⁹⁵ | IL | Water system | Aqua America | Sale | 450 |
| 2003 | LeClaire ¹⁹⁶ | IA | Water system | American Water | Sale | 2,868 |
| 2006 | Logan County Public Service District ¹⁹⁷ | WV | Sharples water system | American Water | Sale | 200 |
| 2003 | Monterey County ¹⁹⁸ | CA | Las Palmas Ranch, Monterey County Service Area 72 sewer system | American Water | Sale | 3,377 |
| 2003 | Monterey County ¹⁹⁹ | CA | Carmel Valley County Sanitation District sewer system | American Water | Sale | 1,706 |
| 2003 | Monterey County ²⁰⁰ | CA | Chualar Water, County service area 75 water system | American Water | Sale | 614 |
| 2003 | Monterey County ²⁰¹ | CA | Laguna Seca Ranch, Pasadera County service area 10 sewer system | American Water | Sale | 325 |

| Municipal Water and Sewer Systems Sold or Leased to Private Companies from 1991 to 2010 | | | | | | |
|---|--|-------|---|---|------|-------------------|
| Year | Seller | State | System | Most Recent ^a Private Owner (parent company) | Type | Population Served |
| 2003 | Monterey County ²⁰² | CA | Ralph Lane Water; County service area 69 water system | American Water | Sale | 66 |
| 2003 | Sandy Ridge ²⁰³ | PA | Sandy Ridge Water Authority water system | American Water | Sale | 495 |
| 2003 | West Decatur ²⁰⁴ | PA | West Decatur Authority water system | American Water | Sale | 700 |
| 2004 | Dune Acres Town ²⁰⁵ | IN | Water system | American Water | Sale | 300 |
| 2004 | Saunemin Village ²⁰⁶ | IL | Water system | American Water | Sale | 647 |
| 2004 | Sligo Borough ²⁰⁷ | PA | Sligo Borough Authority water system | American Water | Sale | 700 |
| 2005 | East Fallowfield Township ²⁰⁸ | PA | Water and sewer systems | American Water | Sale | 315 |
| 2005 | Hanover Village ²⁰⁹ | NJ | Water and sewer systems | Aqua America | Sale | 300 |
| 2005 | Los Trancos County Water District ²¹⁰ | CA | Los Trancos Water District | California Water Service Group | Sale | 1,200 |
| 2005 | Owenton ²¹¹ | KY | Water and sewer systems | American Water | Sale | 4,300 |
| 2005 | Philo Village ²¹² | IL | Water system | Aqua America | Sale | 1,300 |
| 2005 | Shelby County ²¹³ | AL | Sewer system | Southwest Water | Sale | 11,440 |
| 2005 | Shippenville Borough ²¹⁴ | PA | Shippenville Borough Authority water system | American Water | Sale | 674 |
| 2005 | Spring Grove Borough ²¹⁵ | PA | Water system | York Water Company | Sale | 5,250 |
| 2006 | Marion County ²¹⁶ | TN | Suck Creek Utility District water system | American Water | Sale | 575 |
| 2007 | Abbottstown Borough ²¹⁷ | PA | Abbottstown Municipal Authority water system | York Water Company | Sale | 800 |
| 2007 | Ceredo, Town of ²¹⁸ | WV | Water system east of Twelvepole Creek | American Water | Sale | 520 |
| 2007 | Clendenin ²¹⁹ | WV | Water system | American Water | Sale | 1,895 |
| 2007 | Manteno Village ²²⁰ | IL | Water system | Aqua America | Sale | 10,000 |
| 2007 | Milton, Town of ²²¹ | DE | Sewer system | Middlesex Water | Sale | 2,400 |
| 2007 | Mount Ephraim ²²² | NJ | Water system | American Water | Sale | 4,495 |
| 2007 | Pesotum Village ²²³ | IL | Water system | American Water | Sale | 520 |
| 2007 | Seaside Heights Borough ²²⁴ | NJ | Pelican Island water system | American Water | Sale | 300 |
| 2007 | Summerdale Town ²²⁵ | AL | Sewer system | Baldwin County Sewer Service LLC | Sale | 206 |
| 2007 | Sun River Terrace Village ²²⁶ | IL | Water system | Aqua America | Sale | 600 |
| 2008 | Clarion Borough ²²⁷ | PA | Clarion Area Authority sewer system | American Water | Sale | 6,600 |
| 2008 | Claysville-Donegal Joint Municipal Authority ²²⁸ | PA | Water and sewer systems | American Water | Sale | 1,265 |
| 2008 | Fayetteville ²²⁹ | WV | Water and sewer systems | American Water | Sale | 4,500 |
| 2008 | Jefferson City ²³⁰ | MO | North Jefferson water system | American Water | Sale | 80 |
| 2008 | Shelby County Governmental Utility Services Corporation ²³¹ | AL | Riverview sewer system | Southwest Water | Sale | 12,000 |
| 2008 | South Vinemont ²³² | AL | Sewer system | Integra Water | Sale | 600 |
| 2009 | Amwell Township ²³³ | PA | Amwell Township Water Authority water system | American Water | Sale | 499 |
| 2009 | Arbuckle Public Service District ²³⁴ | WV | Water system | American Water | Sale | 500 |
| 2009 | Athens Township ²³⁵ | PA | Water system | Aqua America | Sale | 18 |
| 2009 | Boggs Township ²³⁶ | PA | Boggs Township municipal authority water system | American Water | Sale | 300 |
| 2009 | Kratzerville ²³⁷ | PA | Kratzerville Municipal Authority water system | Aqua America | Sale | 400 |
| 2009 | Lower Colorado River Authority ²³⁸ | TX | Harper Water System in Gillespie County | Aqua America | Sale | 333 |
| 2009 | Lower Colorado River Authority ²³⁹ | TX | London Water System in Kimble County | Aqua America | Sale | 114 |
| 2009 | Saxonburg Borough ²⁴⁰ | PA | Saxonburg Area Authority water system | American Water | Sale | 3,600 |
| 2009 | Sewerage District No. 6 ²⁴¹ | LA | Sewer system in St. Tammany Parish | Utilities, Inc. | Sale | 2,491 |
| 2009 | Wallaceton ²⁴² | PA | Wallaceton Municipal Authority water system | American Water | Sale | 375 |
| 2009 | Waveland Town ²⁴³ | IN | Waveland Water Utility | American Water | Sale | 500 |
| 2009 | West Manheim Township ²⁴⁴ | PA | Water system | York Water Company | Sale | 4,487 |
| 2010 | Bloomsbury ²⁴⁵ | NJ | Water system | Aqua America | Sale | 1,000 |
| 2010 | Marion Heights Conservancy District ²⁴⁶ | IN | Water system | American Water | Sale | 1,100 |

^a Mequon bought back its water system in 2009.

Appendix B: Prospective Sales and Concessions of Municipal Water Systems

The below list includes possible sales and concessions of publicly owned water or sewer systems from 2008 to 2010. It was compiled from news reports, corporate filings and local government websites. It predominately includes publicized proposals, offers, suggestions and speculations by community members, municipalities and corporations.

The list contains 56 possible privatizations, 39 of which are pending further action and 17 of which were stopped. Prospective deals are listed as “stopped” if the municipality

rejected or indefinitely tabled privatization plans as of October 2010. Prospective deals are listed as “active” if they were not completed (the transaction had not closed) or expressly stopped before the end of October 2010.

The list is not comprehensive. For example, in 2010, American Water claimed to be in talks with 75 different municipalities and other entities, and Aqua America claimed to be in talks to buy 40 systems.²⁴⁷

| Possible Sales and Concessions of Municipal Water and Sewer Systems (as of October 2010) | | | | | | | |
|--|---------|--|-------|---|--|------------|------------|
| Status Year | Status | Seller | State | System | Possible Buyer/ Lessee, If Named | Type | Population |
| 2010 | Active | Aberdeen ²⁴⁸ | OH | Water system | | Sale | 1,574 |
| 2008 | Stopped | Akron ²⁴⁹ | OH | Sewer system | | Concession | 330,000 |
| 2010 | Active | Auxvasse ²⁵⁰ | MO | Water system | American Water | Sale | 901 |
| 2010 | Active | Bexar Metropolitan Water District ²⁵¹ | TX | Water systems in Comal County | San Jose Water Company | Sale | 1,530 |
| 2009 | Stopped | Carbondale ²⁵² | IL | Water and sewer systems | | Sale | 25,597 |
| 2010 | Active | Cecil County ²⁵³ | MD | Meadowview, Pine Hills, Habourview, Route 7 water systems; Meadowview, Highlands, Cherry Hill, Habourview sewer systems | Artesian Water | Sale | 4,837 |
| 2010 | Active | Chicago ²⁵⁴ | IL | Water and sewer systems | | Concession | 2,896,016 |
| 2010 | Active | Conshohocken ²⁵⁵ | PA | Sewer system | Aqua Wastewater Management, American Water Works | Sale | 3,000 |
| 2010 | Active | Crothersville ²⁵⁶ | IN | Water system | American Water | Sale | 1,800 |
| 2010 | Active | Detroit ²⁵⁷ | MI | Water and sewer systems | | Either | 4,000,000 |
| 2010 | Stopped | East Hempfield ²⁵⁸ | PA | Water system | Aqua America | Sale | 16,761 |
| 2009 | Stopped | Farmington ²⁵⁹ | PA | Water system | Aqua America | Sale | 916 |
| 2010 | Active | Fairfield ²⁶⁰ | NJ | Sewer system | Aqua America | Sale | 6,283 |
| 2010 | Active | Fresno County ²⁶¹ | CA | Quail Lake, County Service Area 47 water system | California Water Service Company | Sale | 1,265 |
| 2008 | Stopped | Gloucester ²⁶² | MA | Water system | United Water | Sale | 45,409 |
| 2010 | Active | Harrisburg ²⁶³ | PA | Water and sewer systems | United Water | Either | 66,540 |
| 2010 | Stopped | Hazleton ²⁶⁴ | PA | Water system | | Sale | 42,066 |
| 2010 | Stopped | Houtzdale ²⁶⁵ | PA | Water system | American Water | Sale | 6,200 |
| 2010 | Active | Kansas City ²⁶⁶ | MO | Sewer system | | Concession | 653,000 |
| 2010 | Active | Kennett Square ²⁶⁷ | PA | Water system | Aqua America | Sale | 5,782 |
| 2010 | Stopped | Knob Noster ²⁶⁸ | MO | Water and sewer systems | American Water | Sale | 2,350 |
| 2009 | Stopped | LeClaire ²⁶⁹ | IA | Sewer system | American Water | Sale | 2,734 |
| 2010 | Active | Lemoyne ²⁷⁰ | PA | Sewer system | American Water | Sale | 4,000 |
| 2008 | Stopped | Lower Makefield ²⁷¹ | PA | Sewer system | Aqua America | Sale | 33,000 |
| 2010 | Stopped | Marion ²⁷² | IN | Water and sewer systems | American Water, Aqua America and United Water | Sale | 31,590 |
| 2010 | Active | Martinsville ²⁷³ | IN | Water system | | Sale | 15,000 |
| 2009 | Stopped | Milwaukee ²⁷⁴ | WI | Water system | | Concession | 647,290 |

| Possible Sales and Concessions of Municipal Water and Sewer Systems (as of October 2010) | | | | | | | |
|--|---------------------|---|-------|---|------------------------------------|------------|------------|
| Status Year | Status | Seller | State | System | Possible Buyer/ Lessee, If Named | Type | Population |
| 2009 | Stopped | Mount Jewett ²⁷⁵ | PA | Water system | American Water, Aqua America | Sale | 1,500 |
| 2010 | Active | Mount Olive ²⁷⁶ | NJ | Water system | United Water, American Water | Either | 7,300 |
| 2010 | Active | Nassau County ²⁷⁷ | NY | Sewer system | | Concession | 1,132,000 |
| 2010 | Active | New Cumberland ²⁷⁸ | PA | Sewer system | American Water | Sale | 7,349 |
| 2009 | Active | New Market ²⁷⁹ | IN | Water and sewer systems | American Water | Sale | 756 |
| 2010 | Active | New Whiteland ²⁸⁰ | IN | Water system | American Water | Sale | 5,648 |
| 2010 | Active | Pittsburgh ²⁸¹ | PA | Water and sewer systems | | Either | 250,000 |
| 2010 | Active ^a | Port Deposit ²⁸² | MD | Water system | Artesian Water | Sale | 725 |
| 2010 | Active | Pottstown ²⁸³ | PA | Water treatment plant | Aqua America | Sale | 36,000 |
| 2010 | Active | Providence ²⁸⁴ | RI | Water and sewer systems | | Sale | 600,000 |
| 2010 | Active | Reading ²⁸⁵ | PA | Water system | | Sale | 87,000 |
| 2008 | Stopped | Reno, Sparks and Washoe County ²⁸⁶ | NV | Truckee Meadows Water Authority water system | Goldman Sachs | Concession | 311,932 |
| 2010 | Active | Rialto ²⁸⁷ | CA | Water, sewer and recycled water systems | American Water/ Table Rock Capital | Concession | 100,000 |
| 2010 | Active | Riley ²⁸⁸ | IN | Water system | American Water | Sale | 1,652 |
| 2010 | Active ^b | San Jose ²⁸⁹ | CA | Water system | San Jose Water Company, Veolia | Either | 110,000 |
| 2010 | Active | Sellersville ²⁹⁰ | PA | Water system | | Sale | 4,900 |
| 2010 | Active | Slippery Rock Borough ²⁹¹ | PA | Slippery Rock Municipal Authority water system | | Sale | 8,350 |
| 2010 | Active | Spotswood ²⁹² | NJ | Water system | United Water | Sale | 8,300 |
| 2010 | Active | Sussex ²⁹³ | NJ | Water system | United Water | Sale | 2,201 |
| 2010 | Active | Tamaqua ²⁹⁴ | PA | Water and sewer systems | | Sale | 8,000 |
| 2010 | Stopped | Temple ²⁹⁵ | GA | Water and sewer systems | Integra Water | Concession | 4,420 |
| 2010 | Active | Toledo ²⁹⁶ | OH | Sewer system | | Sale | 346,000 |
| 2010 | Stopped | Trenton ²⁹⁷ | NJ | Ewing, Hamilton, Lawrence and Hope Townships water system | American Water | Sale | 120,000 |
| 2010 | Active | Tulsa ²⁹⁸ | OK | Water and sewer systems | | Concession | 471,000 |
| 2010 | Active | West Terre Haute ²⁹⁹ | IN | Water system | American Water | Sale | 2,495 |
| 2010 | Stopped | Winslow ³⁰⁰ | NJ | Water and sewer systems | | Sale | 10,300 |
| 2010 | Active | Wolcottville ³⁰¹ | IN | Sewer system | | Sale | 2,374 |
| 2010 | Active | Worcester ³⁰² | MA | Water system | | Either | 173,966 |
| 2010 | Active | York Springs ³⁰³ | PA | Water system | York Water Company | Sale | 850 |

^a Acquisition of Port Deposit’s water system was completed November 2, 2010.

^b San Jose’s city council decided against pursuing a lease or sale of the water system on November 9, 2010.

Appendix C: The Interest Rate on a Loan from a Typical Investor-Owned Water Utility

In this analysis, Food & Watch determined that a typical investor-owned water utility would charge about 11 percent interest on its payment to a local government. This interest rate reflects the company's opportunity cost of putting capital into the upfront payment instead of another project. For a project to make sense, the company's cost of capital must not exceed its return on capital.

The cost of financing any project, known as the cost of capital, is the cost of the debt plus the return on the equity.³⁰⁴ There is no single correct way to determine capital costs, particularly the return on equity,³⁰⁵ but this analysis uses industry averages to estimate a typical scenario. Detailed descriptions of these estimates are included in the below table.

| Estimated Cost of Capital of Private Water Utilities in the United States | | |
|---|----------------------|--|
| Long-Term Debt to Equity Ratio | 50% debt: 50% equity | The capital structure represents the share of the project that is debt (bonds and other loans) or equity (stock and retained earnings). The average capital structure in the U.S. investor-owned water utility industry is about 50 percent debt and 50 percent equity. ³⁰⁶ |
| Cost of debt | 6% | The cost of debt is the average interest rate on a company's outstanding bonds and loans. ³⁰⁷ The daily average interest rate on a private utility bond was 6.46 percent in 2009. ³⁰⁸ The new debt issuance rates of American Water, the largest U.S. water utility, were 6.5 percent to 8.5 percent in 2009. ³⁰⁹ |
| Return on equity | 10% | The return on equity is the profit that the owners of the company receive. The water utility industry's desired benchmark return on equity and its average return are around 10 percent. ³¹⁰ |
| Income taxes | 39% | The cost of private financing includes the added cost of taxes that a water corporation has to pay on its earnings (the return on equity) and passes on to water users. ³¹¹ The composite federal and state income tax rate is 39 percent. States, on average, levy an income tax of 6.6 percent on corporations in the highest income bracket, ³¹² and the federal income tax rate is 35 percent for large corporations. ³¹³ |

| Calculation of the Typical Private Water Utility's Financing Costs | | | | |
|--|-------|---|------|------------|
| Capital Structure | Ratio | | Cost | Wgt'd Cost |
| (a) Equity | 50% | x | 10% | = 5% |
| (b) Debt | 50% | x | 6% | = 3% |
| (c) Total investment (lines a + b) | | | | 8% |
| (d) Income taxes ((tax factor - 1) X line a) | | | | 3% |
| (e) Cost of capital (lines c + d) | | | | 11% |

| Calculation of Corporate Income Tax Factor | |
|--|---------------|
| Whole Income | 100.000% |
| - State tax rate | + 6.600% |
| Income taxable by federal government | 93.400% |
| x Federal tax rate | x 35.000% |
| Effective federal tax rate | 32.690% |
| + State tax rate | + 6.600% |
| Composite tax rate | 39.290% |
| Tax Factor = [1 / (1-composite tax rate)] | 1.6472 |

| Total Cost of a 20-Year, \$1 Million Loan | | |
|--|----------------------------------|---|
| Inputs | Loan value (millions) | \$1,000,000 |
| | Term (years) | 20 |
| | Public Water Revenue Bond | Private Concession Fee or Purchase Payment |
| Interest rate | 5% | 11% |
| Annual payment* | \$80,242.59 | \$125,575.64 |
| Total cost of loan (annual payment x term) | \$1,604,852 | \$2,511,513 |
| Difference | | \$906,660.99 |
| Percent that the public cost is less | | 36% |
| Percent that the private cost is greater | | 56% |

*Assuming fixed annual payments

Regardless of the initial loan value, private financing through privatization is predicted to be 56 percent more expensive than a typical public water revenue bond over a 20-year period at the indicated interest rates.

Appendix D: Additional Information About the Rate Increase Survey

Food & Water Watch compiled 144 sales and concessions of municipal water and sewer systems since 1991 (See Appendix A). These are the 10 largest by population served.

The typical annual household bill was calculated based on an assumed annual usage of 54,000 gallons, unless the source documents specified a different average volumetric usage. In some cases, news reports provided the typical bill

and no rate schedule could be located. For that reason, the same volumetric usage was not used for all the cities.

Annual household bills were calculated based on same annual volumetric usage within communities over time. In this way, the change in household bills is due to changes in prices rather than changes in household water use.

Ten Largest Known Sales and Concessions from 1991 to October 2010, by Population

| City | State | Current Parent Company | System(s) Privatized | Type of Privatization | Year Privatized | Typical annual household usage (gallons) |
|----------------|--------------|------------------------|--------------------------|-----------------------|-----------------|--|
| Bensalem | Pennsylvania | Aqua America | Drinking Water | Sale | 1999 | 54,000 |
| Bristol | Pennsylvania | Aqua America | Drinking Water | Sale | 1996 | 54,000 |
| Coatesville | Pennsylvania | American Water | Drinking Water and Sewer | Sale | 2001 | 51,036 |
| East Palo Alto | California | American Water | Drinking Water | Concession | 2001 | 54,000 |
| Edison* | New Jersey | American Water | Drinking Water | Concession | 1997 | 80,000 |
| Elizabeth* | New Jersey | American Water | Drinking Water | Concession | 1998 | 80,000 |
| Fairbanks | Alaska | CORIX | Drinking Water and Sewer | Sale | 1997 | 54,000 |
| Florissant | Missouri | American Water | Drinking Water | Sale | 2002 | 54,000 |
| Hawthorne | California | California Water | Drinking Water | Concession | 1996 | 134,400 |
| Media Borough | Pennsylvania | Aqua America | Drinking Water | Sale | 1995 | 68,000 |

*The city clerk offices of Edison and Elizabeth, N.J., did not know the current water rates charged in their respective cities, when asked by Food & Water Watch. A customer service representative for American Water said that the consumers in those cities were charged the rates for the company's service area 2. Because Edison Water Company (the local American Water subsidiary in Edison) and Liberty Water Company (the local American Water subsidiary in Elizabeth) are listed as resale customers on the company's tariff sheet, the resale rates were used in the above calculation. These rates were lower than the general service charges for non-resale customers.



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