The poor track records of Illinois American Water and Aqua Illinois demonstrate that privatization is an unacceptable and irresponsible alternative to traditional public provision of water and sewer service. Many of the companies’ customers, both households and businesses, have reported paying too much for inadequate service. These consumer experiences underscore the importance of keeping water and sewer systems in local, public hands. They highlight how problematic it is for private interests to control public water resources.

Illinois American Water and Aqua Illinois — the state operations of large corporations called American Water and Aqua America — are the largest investor-owned water utilities in Illinois, providing water to one in ten people in the state. Across the country, American Water and Aqua America are pushing their privatization agendas by exploiting the fiscal troubles facing many communities, and in Illinois they have spent tens of thousands of dollars trying to influence state and local politics in their favor (see box on page 4). Their poor performance — from exorbitant rates in Bolingbrook, to billing mistakes in Manteno, to dangerously low water pressure in Lisle — should give pause to any elected official considering privatizing, or facilitating the privatization of, a water or sewer system.

### Financial Information of the Two Largest Investor-Owned Water Utilities in Illinois
(for year ended December 31, 2010)

<table>
<thead>
<tr>
<th>Company</th>
<th>Operating Revenues</th>
<th>Profit</th>
<th>Service Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois American Water Company</td>
<td>$227 million</td>
<td>$18 million</td>
<td>1.2 million</td>
</tr>
<tr>
<td>American Water Works Company, Inc.</td>
<td>$2.7 billion</td>
<td>$268 million</td>
<td>15 million</td>
</tr>
<tr>
<td>Aqua Illinois, Inc.</td>
<td>$43 million</td>
<td>$6 million</td>
<td>200,000</td>
</tr>
<tr>
<td>Aqua America, Inc.</td>
<td>$726 million</td>
<td>124 million</td>
<td>3 million</td>
</tr>
</tbody>
</table>

a Combined revenue of Illinois American Water and American Lake Water Company (American Water’s other regulated subsidiary in Illinois) was $232 million
b Including American Lake Water Company
High Prices

The price of water service is a frequent consumer complaint about investor-owned water companies. Both Illinois American Water and Aqua Illinois have aggressively hiked water rates.

Since 2001, Illinois American Water has increased its rates by a total of 82 percent (excluding infrastructure surcharges). Most recently, in 2010, the company hiked rates by 23 percent. Over the last decade, Aqua Illinois — formerly Consumers Illinois — has more than doubled the rates of its Kankakee Division (excluding infrastructure surcharges). (Unlike Illinois American Water, Aqua Illinois increases the rates of all of its divisions at the same time.) In April 2011, Aqua Illinois sought to consolidate its rate divisions, excluding the Kankakee one, and to hike rates by 23 percent. Within four months, 50 customers had written the Illinois Commerce Commission to protest this proposed increase, which was commonly characterized as “unreasonable,” “excessive,” “ridiculous,” “unfair” and “out of line.”

Rate Increases Following Privatization

After purchasing municipal water systems, Illinois American Water and Aqua Illinois increased water rates substantially.

Since 1998, Illinois American Water has purchased the water systems of four villages: Bolingbrook, Pesotum, Saunemin and Shiloh. And since 2001, Aqua Illinois has purchased the systems of six villages: Aroma Park, Grant Park, Indianola, Manteno, Philo and Sun River Terrace. By 2011, water rates in these ten communities had more than doubled on average since privatization. This corresponds to an extra $405 on the typical annual water bill of a household using 72,000 gallons of water a year (or $356 when adjusted for inflation). Water prices have grown at an average compound rate of 18 percent a year.

In comparison, national surveys have found that water and sewer bills typically increase by about 5 percent a year. That means that customers of these privatized systems are seeing their water rates grow 260 percent faster than usual.

High Costs

Investor-owned water utilities charge higher water prices than municipalities, mostly because of profits, taxes and debt costs. Illinois American Water has argued that one benefit of privatization is the private sector’s greater access to capital, but the company neglects to mention that private capital is not cheap. In fact, private financing is usually more expensive than public financing. This is apparent in Illinois. In 2010, the average interest rate on the long-term debt of Illinois American Water was 6.24 percent and that of Aqua Illinois-Kankakee Division was 6.72 percent. A typical municipal bond was considerably cheaper with an interest rate of 4.30 percent. Given the high borrowing costs of investor-owned water utilities, for a typical municipality, privatization would likely increase the cost of building and improving water systems. This translates into higher water prices for consumers.

Compared to taking out debt, it is even more costly for investor-owned water utilities to raise capital from their investors. Illinois American Water and Aqua Illinois, for example, have authorized rates of return on equity — essentially their profit — of slightly more than 10 percent. The companies pass on the cost of profit and taxes to water users through water rates.
## Rate Hikes and Privatization in Ten Illinois Villages:

How Typical Household Bills Have Increased Since Aqua Illinois and Illinois American Water Acquired Community Water Systems

Based on Annual Water Usage of 72,000 Gallons, As of 2011

<table>
<thead>
<tr>
<th>Village</th>
<th>Sale Year</th>
<th>Typical Annual Household Water Bill (^c) (inflation adjusted) (^d)</th>
<th>Total Increase (^e) (inflation adjusted) (^d)</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Public Pre-Sale</td>
<td>Private 2011</td>
<td>Amount</td>
</tr>
<tr>
<td>Aroma Park</td>
<td>2001(^30)</td>
<td>$303(^31) ($385)</td>
<td>$627(^32)</td>
<td>$323 ($242)</td>
</tr>
<tr>
<td>Grant Park</td>
<td>2003(^33)</td>
<td>$237(^24) ($291)</td>
<td>$623(^35)</td>
<td>$387 ($333)</td>
</tr>
<tr>
<td>Indianola</td>
<td>2003(^36)</td>
<td>$300(^37) ($364)</td>
<td>$681(^38)</td>
<td>$381 ($317)</td>
</tr>
<tr>
<td>Manteno</td>
<td>2007(^39)</td>
<td>$207(^40) ($225)</td>
<td>$619(^41)</td>
<td>$412 ($394)</td>
</tr>
<tr>
<td>Philo</td>
<td>2005(^42)</td>
<td>$262(^43) ($297)</td>
<td>$646(^44)</td>
<td>$384 ($349)</td>
</tr>
<tr>
<td>Sun River Terrace</td>
<td>2008(^45)</td>
<td>$240(^46) ($254)</td>
<td>$565(^47)</td>
<td>$325 ($311)</td>
</tr>
</tbody>
</table>

### Aqua Illinois \(^a\):

<table>
<thead>
<tr>
<th>Village</th>
<th>Sale Year</th>
<th>Typical Annual Household Water Bill (^c) (inflation adjusted) (^d)</th>
<th>Total Increase (^e) (inflation adjusted) (^d)</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Public Pre-Sale</td>
<td>Private 2011</td>
<td>Amount</td>
</tr>
<tr>
<td>Aroma Park</td>
<td>2001(^30)</td>
<td>$303(^31) ($385)</td>
<td>$627(^32)</td>
<td>$323 ($242)</td>
</tr>
<tr>
<td>Grant Park</td>
<td>2003(^33)</td>
<td>$237(^24) ($291)</td>
<td>$623(^35)</td>
<td>$387 ($333)</td>
</tr>
<tr>
<td>Indianola</td>
<td>2003(^36)</td>
<td>$300(^37) ($364)</td>
<td>$681(^38)</td>
<td>$381 ($317)</td>
</tr>
<tr>
<td>Manteno</td>
<td>2007(^39)</td>
<td>$207(^40) ($225)</td>
<td>$619(^41)</td>
<td>$412 ($394)</td>
</tr>
<tr>
<td>Philo</td>
<td>2005(^42)</td>
<td>$262(^43) ($297)</td>
<td>$646(^44)</td>
<td>$384 ($349)</td>
</tr>
<tr>
<td>Sun River Terrace</td>
<td>2008(^45)</td>
<td>$240(^46) ($254)</td>
<td>$565(^47)</td>
<td>$325 ($311)</td>
</tr>
</tbody>
</table>

### Illinois American Water \(^b\):

<table>
<thead>
<tr>
<th>Village</th>
<th>Sale Year</th>
<th>Typical Annual Household Water Bill (^c) (inflation adjusted) (^d)</th>
<th>Total Increase (^e) (inflation adjusted) (^d)</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolingbrook</td>
<td>2002(^48)</td>
<td>$246(^49) ($307)</td>
<td>$922(^50) ($615)</td>
<td>$676 ($615)</td>
</tr>
<tr>
<td>Pesotum</td>
<td>2007(^51)</td>
<td>$192(^52) ($209)</td>
<td>$598(^53) ($389)</td>
<td>$406 ($389)</td>
</tr>
<tr>
<td>Saunemin</td>
<td>2004(^54)</td>
<td>$219(^55) ($260)</td>
<td>$630(^56) ($370)</td>
<td>$411 ($370)</td>
</tr>
<tr>
<td>Shiloh</td>
<td>1998(^57)</td>
<td>$290(^58) ($399)</td>
<td>$634(^59) ($235)</td>
<td>$344 ($235)</td>
</tr>
</tbody>
</table>

### Illinois American Average:

- **Public Pre-Sale:** $237 ($294)
- **Private 2011:** $695
- **Total Increase:** $459 ($402)
- **Compound Annual Growth Rate:** 198% (147%)

### TOTAL AVERAGE:

- **Public Pre-Sale:** $250 ($299)
- **Private 2011:** $655
- **Total Increase:** $405 ($356)
- **Compound Annual Growth Rate:** 167% (127%)

---

\(^a\) Consumers Illinois Water Company changed its name to Aqua Illinois, Inc., in 2004.\(^60\)

\(^b\) Illinois American Water Company acquired Citizens Utilities Company of Illinois in 2002.\(^61\)

\(^c\) Bills calculated for metered general water service residential customers with 5/8 inch meters using 6,000 gallons a month.

Case Studies

**Will County: Communities Eye Joint Takeover of American Water Pipeline**

In 2010, hoping to gain more control of water rates, Bolingbrook, Homer Glen, Lemont, Romeoville and Woodridge formed a joint action water agency to purchase their water pipeline from American Water. In August 2011, the municipalities met their first objective when the state legislature passed a law permitting them to take legal action to compel the company to sell the pipeline, which transports Lake Michigan water to the area.

Previously, state law required unanimous support from the municipalities served by a water system before pursuing eminent domain proceedings to purchase the system. One pipeline customer, Plainfield — which buys wholesale water and then distributes it to households via its publicly owned system, so that water rates are cheaper than they are for households directly served by Illinois American Water — chose not to join the joint action water agency. This had effectively prevented the other five communities from pursuing public control. The new legislation, however, changed this; it tweaked state law to allow the use of eminent domain with the approval of a supermajority — no longer all — of the affected municipalities.

Because Illinois American Water is unwilling to sell the system, eminent domain may be the only answer for the communities. “The pipeline is the cash cow of Illinois American, and we’ve just got to get their attention,” Bolingbrook Mayor Roger Claar explained to the Chicago Tribune. “We’ve tried to work with them for years.”

**Bolingbrook: The High Price of American Water**

Bolingbrook has been reeling from high water prices ever since it relinquished control of its water supply to Illinois American Water.

In 2002, the village and the company swapped water infrastructure, with the village selling its municipal water system and buying certain wastewater treatment plants from the company. Bolingbrook agreed to the exchange in 1996, to transport Lake Michigan water to Bolingbrook and other communities. The sale occurred after the company completed the pipeline.

At the time of the swap, Bolingbrook households paid $246 a year for 72,000 gallons of well water or $524 a year for Lake Michigan water. (A water supply arrangement with the company dictated the rates for the latter.) In 2011, less than a decade after the sale, a household had to pay $922 a year for the same amount of water. A total increase of $267 over the public rates for Lake Michigan water and $615 over the public rates for well water.

Lake Michigan water isn’t inherently this expensive. Residents of neighboring communities with water service from their local government pay much less than Illinois American Water customers do. Based on a 2011 survey by the City of Naperville, Bolingbrook’s water prices were 228 percent higher than the average price of ten nearby publicly owned water systems supplying Lake Michigan water.

Fed up with the high rates, Bolingbrook took two major actions against the company in 2010. In November, it sued the company accusing it of overcharging consumers in violation of its water sale contract. The lawsuit is pending. Eight months earlier, it joined the Northern Will County Joint Action Water Agency to purchase the company’s pipeline that transports Lake Michigan water. By municipalizing the system, the village intends to reduce water rates for consumers and gain local public control over its water supply.

**Homer Glen: Paying for American Water’s Lack of Good Business Practices**

Homer Glen is another member of the joint action water agency that wants to purchase its pipeline from American Water. The village has long contested Illinois American Water’s rates and customer service quality. For example, at a state regulatory hearing in July 2008, about 150 people protested the company’s plan to hike rates. If skyrocketing rates weren’t bad enough, the reason for them was sure to incite ire. The company wanted to recover the cost of its unaccounted-for...
water. Mayor Jim Daley summed up the situation: “The bottom line is that Homer residents are paying for Illinois American Water’s lack of good business and management practices and inability to control unaccounted for water.”

Homer Glen began exploring how to take over its water system from Illinois American Water after public outrage over the company’s high water bills. A 2008 study commissioned by the village and neighboring towns found that a publicly owned system could provide its residents with water at a lower rate. In 2011, the village commissioned another study to see how much money public operation would save. Daley said in 2011, “I look forward to the day when our water rates no longer cost a family a minor fortune to provide a basic necessity.”

**Pekin: “A Terrible, Terrible Mistake” with American Water**

Nearly a decade ago, in 2002, voters in Pekin supported a public purchase of their water system by a margin of 22 percent (61 percent versus 39 percent). Illinois American Water has owned the city’s water system since buying it from a small private company in 1982. Dirk Hierstein, who was city manager at the time of the referendum, told USA Today in 2010 that water privatization is “a terrible, terrible mistake.”

The city council acted quickly on the public referendum and voted unanimously to pursue buying the system, but the Illinois Commerce Commission rebuffed the city’s plans. In July 2006, the state legislature passed a law that stripped the commission’s power to block public takeovers, but Pekin has not renewed a municipalization effort. Nonetheless, city manager Denny Kief told USA Today in 2010 that he still believed public ownership would reduce rates, facilitate pipeline projects and allow the city to “control our own destiny.”

In response to numerous complaints from residents about the company’s rates and service, the village of Lisle established a water task force to investigate the company. In its final report in 2006, the task force concluded, “Whether the service issue is public safety and fire flow, or sufficient water pressure for daily use in the bathroom, or simply seeking information from the utility on a day-to-day basis, the Task Force believes these are serious concerns that have persisted over time.” It also noted, “Private sector systems sacrifice maintenance for company profits.”

At the time of the report, Illinois American Water charged three times as much as the village did for water and sewer service. That’s still true today. In 2011, a typical household paid $322 a year — $410 a year, if they lived outside municipal boundaries — for water and sewer service from the village, and $1,149 a year for service from Illinois American Water.

**Kankakee County: Do Aqua’s Rate Hikes Drive Away Business and Cost Jobs?**

In Kankakee County, where Aqua Illinois has more than doubled its water rates in the last decade, elected officials have tried to fight the company’s most recent rate increases. The county board hired an outside consulting firm to fight an increase in 2006, and it unanimously voted to oppose another proposed increase four years later.

Sharp public resistance met the company’s plan to increase rates by 24 percent in 2010. “I don’t think, economically, this is something that is good for our area,” said board member Ann Bernard in 2010. “I think it’s going to hurt what industries we do have here.” The Daily Journal, the local newspaper, made a similar observation in an editorial: “If your business is a large consumer of water, the rate hike might just mean the difference between hiring a worker back or letting someone go.”

Fighting the hike even became a campaign issue during the county elections, with board candidates circulating flyers and chartering buses to provide residents with a chance to speak out against the increase. More than 80 residents attended...
one public forum, with more than a quarter standing up to speak out against the hike. According to the Daily Journal, one resident said, “Aqua is trying to hoodwink the people,” and then turned to the company’s regional vice president adding, “I’m not giving you jack.” In December 2010, the company received approval to increase rates by 17 percent.

Manteno: Billing Issues and a Rocky Transition to Aqua Illinois

Problems have plagued the village of Manteno, a small community in Kankakee County, since Aqua Illinois bought its water system in June 2007. In less than a year, about a hundred customers had problems with their bills; in some cases, the company overcharged them by as much as ninefold.

Village officials agreed that billing was very erratic after Aqua Illinois took over. “Most bills are exceedingly high, several hundred dollars more than they should be,” Janice Schulteis, the village’s resource manager, told the Daily Journal.

Everyone has similar stories. Aqua Illinois charged one customer for supposedly using 270,000 gallons of water on a vacant lot. Another customer said that one month the company charged him for six times his normal water use, and his water bills were calculated as if the size of his water line varied from month to month. “We have a lot of senior citizens in town who don’t know what their water charges are,” he told the Daily Journal in 2008. “[Aqua is] scalping people by overcharging them.”

In 2010, Mayor Tim Nugent spoke out against the company’s latest rate hike proposal, which he called “excessive.” He was particularly worried about how it would affect the village’s senior citizen population, telling the Daily Journal, “That added cost is food for a couple of days for some of our seniors.” About one in six Manteno residents is over the age of 65.

As residents struggle with growing water bills, a former village official is riding high. Within a year of buying Manteno’s water system, Aqua Illinois hired Craig Blanchette — who was village administrator at the time of the sale — as a vice president and regional manager.

Woodhaven Lakes: Removing Aqua Illinois

In October 2007, property owners in Woodhaven Lakes — a recreational development of 6,144 campsites in Lee County — voted overwhelmingly by a margin of 4-to-1 to purchase their water and sewer systems from Aqua Illinois. The community wanted to stabilize rates, improve service and enable “local control and responsibility for service.” As a property owner association, we are driven by service rather than profit,” the board of directors of the Woodhaven Association explained. “Our goal will be to maximize the efficiency and effectiveness of the operations.”

The company had hiked the community’s water rates by 48 percent in 2001 and 58 percent in 2005. The [Illinois Commerce Commission] allowed in 2005 was the straw that broke the camel’s back in our minds,” said Russ Brown, president of the Woodhaven Association at the time. “We knew then we had to take more proactive measures to prevent this from continuing to happen.” The association completed the purchase in 2008.

Public-Public Partnerships Offer Better Solutions

The track records of Illinois American Water and Aqua Illinois demonstrate that privatization is not a responsible or acceptable way to address the needs of water and sewer systems in Illinois. Many customers have questioned the corporations’ prices, practices and service quality. Their experiences reflect a larger national trend. Across the country, when private interests control water and sewer systems, households and businesses can end up paying too much for inadequate service.

For better outcomes at a lower cost, municipalities can partner together through public-public partnerships to share resources and expertise. Intermunicipal cooperation, interlocal agreements, bulk purchasing consortiums and other similar arrangements can enhance service quality and save money while allowing communities to retain local public control. Small utilities can use regional cooperation to help create economies of scale in areas such as purchasing, treatment and administration. Researchers have found that these partnerships are more equitable than privatization among rural and disadvantaged municipalities.

Illinois officials should not facilitate the transfer of municipal water systems to private interests. Instead, they should encourage public-public partnerships and support responsible public management of water services.
Endnotes


9 Ibid. at 3.


11 Ibid. at 43.

12 Ibid. at 43.

13 Ibid. at 3.


15 Ibid. at 3.


18 Ibid. at 8.

19 Ibid. at 2.


28 Food & Water Watch calculation 4. Based on information from documents referenced herein.


31 Weighted average of the inside and outside corporate limits rates.


44 Illinois Commerce Commission, January 1, 2011; Monie, 2011 at Exhibit 6.0, Schedule 6.1, Vermilion Water Division, Table 11.


Grigas, Don. "Bill could pave way for village, others taking over"

Manchir, Michelle. "5 suburbs see savings in water line seizure."

Shaw, Michael. "Illinois-American Water Co. buys Shiloh village’s"


Homer Glen. "Senate Bill 83 grants joint action water agency power to acquire Bedford Park water transmission pipeline.” August 29, 2011.


Manchir, Michelle. "5 suburbs see savings in water line seizure.” Chicago Tribune. April 14, 2011.


Nolan, Mike. "Administrator says water rate ad was misleading.” Sun Publications. February 14, 1997.

Illinois-American Water Company, Chicago-Metro, 2011 at sheets 1, 3, 9, 10, 15 (supplemental sheet 6) and 18 (supplemental sheet 1).

Food & Water Watch calculation 5. Based on information from documents referenced herein.


Manchir, Michelle. "5 suburbs see savings in water line seizure.” Chicago Tribune. April 14, 2011.


Manchir, Michelle. "5 suburbs see savings in water line seizure.” Chicago Tribune. April 14, 2011.


Manchir, Michelle. "5 suburbs see savings in water line seizure.” Chicago Tribune. April 14, 2011.


Manchir, Michelle. "5 suburbs see savings in water line seizure.” Chicago Tribune. April 14, 2011.


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.

Copyright © October 2011 by Food & Water Watch. All rights reserved. This issue brief can be viewed or downloaded at www.foodandwaterwatch.org.