

# 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.<sup>1</sup> The Economic Policy Institute estimated that local budgets would fall \$100 billion short from fiscal years 2010 to 2012.<sup>2</sup> State and local budgets continued to deteriorate throughout 2010,<sup>3</sup> 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."<sup>4</sup>

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."<sup>5</sup> The company claimed to be in talks with several large cities.<sup>6</sup> Its targets were clustered on the East Coast and in the Midwest.<sup>7</sup>

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.<sup>8</sup> 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."<sup>9</sup>

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

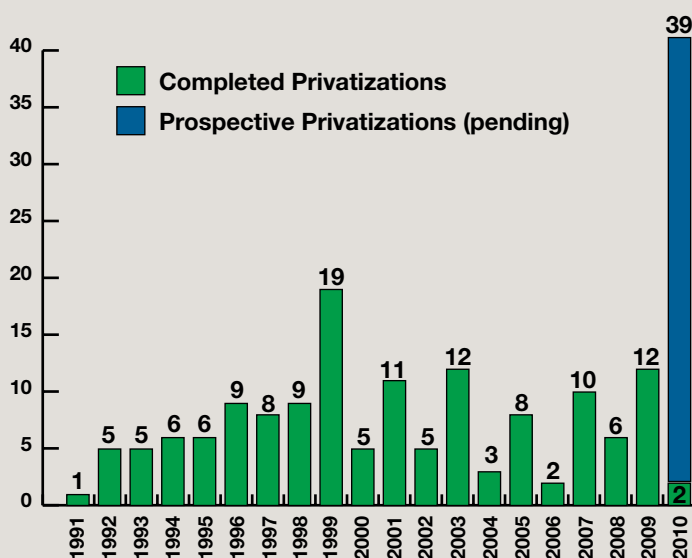
### ***Trend 1: Many local governments explored selling or leasing water systems.***

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,<sup>10</sup> while Chicago was only rumored to be considering a lease.<sup>11</sup>

**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.<sup>12</sup>
- **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.<sup>13</sup>
- **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.<sup>14</sup>

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).

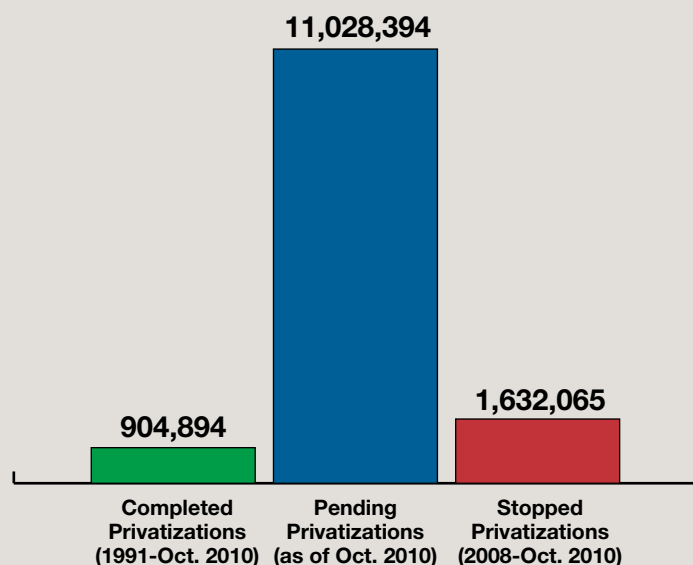
No major city has sold its water system to a private company in the last two decades. During that time, most sales and concessions involved small water systems, serving an average of only 6,284 people. The largest deal was the concession of Elizabeth, N.J.'s water system to American Water in 1998. That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

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

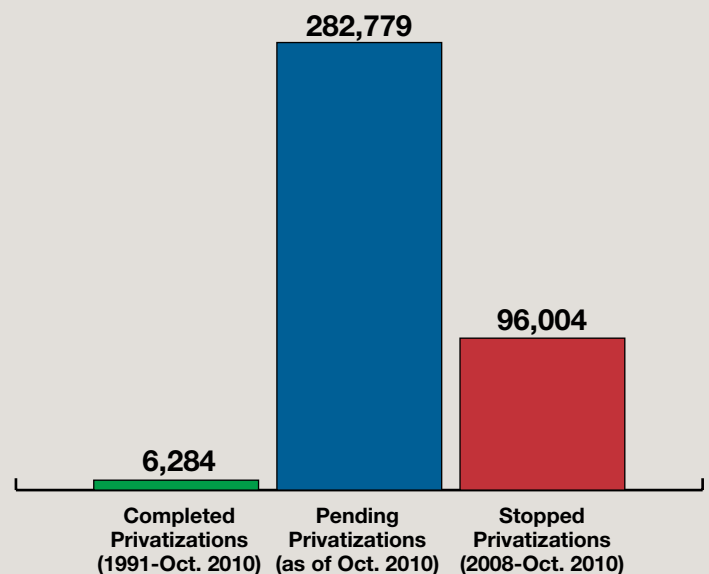
***Trend 3: Budget shortfalls drove the surge in prospective water system sales and concessions.***

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.<sup>15</sup> 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.<sup>16</sup>

**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) <sup>17</sup>
Nassau County, N.Y.	Concession of wastewater system to generate \$125 million a year <sup>18</sup>	\$343 million (2011) <sup>19</sup>
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) <sup>20</sup>
Trenton, N.J.	Sale of water assets serving outlying communities for \$75 million <sup>21</sup>	\$55.7 million (2011) <sup>22</sup>
Tulsa, Okla.	Concession of water and sewer systems to generate revenue	\$18 million (2011) <sup>23</sup>

*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.<sup>24</sup>

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.<sup>25</sup>



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.<sup>26</sup>

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

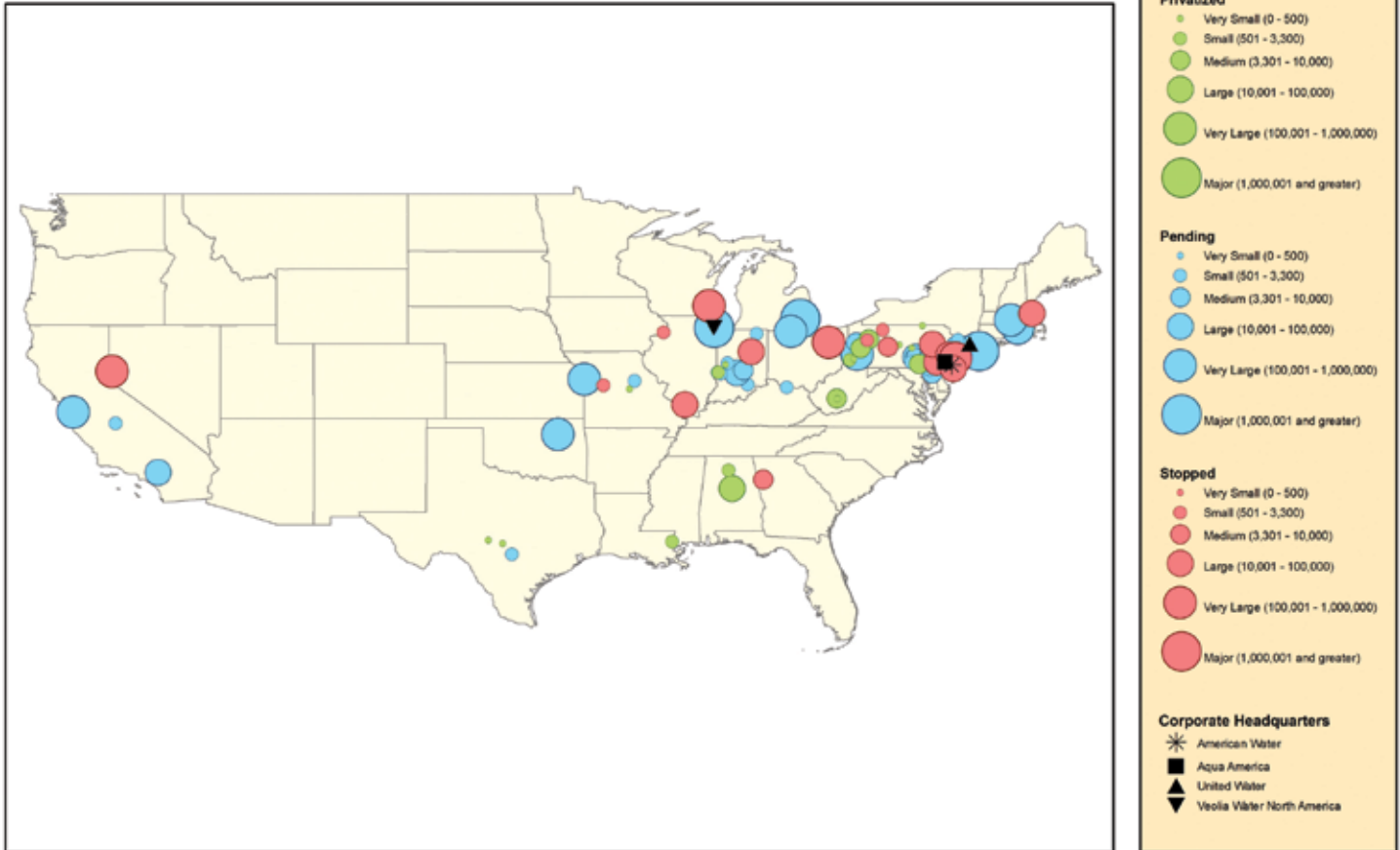
Although cities nationwide considered privatizing their water and sewer systems, many prospective deals were found in the Rust Belt. These cities were hit hard by the recession as pension funds diminished in value, tax revenues fell and jobs were lost in the ailing manufacturing and auto industries.

Local governments in the region also recognized the value of their water resources.<sup>27</sup> 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.<sup>28</sup> 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 Byrnsburg, Pa.; American Water in Voorhees, N.J.; and United Water, a subsidiary of Paris-based Suez Environnement, in Harrington Park, N.J.<sup>29</sup>



## 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.”<sup>30</sup>

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.<sup>31</sup> 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."<sup>32</sup>

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.<sup>33</sup>

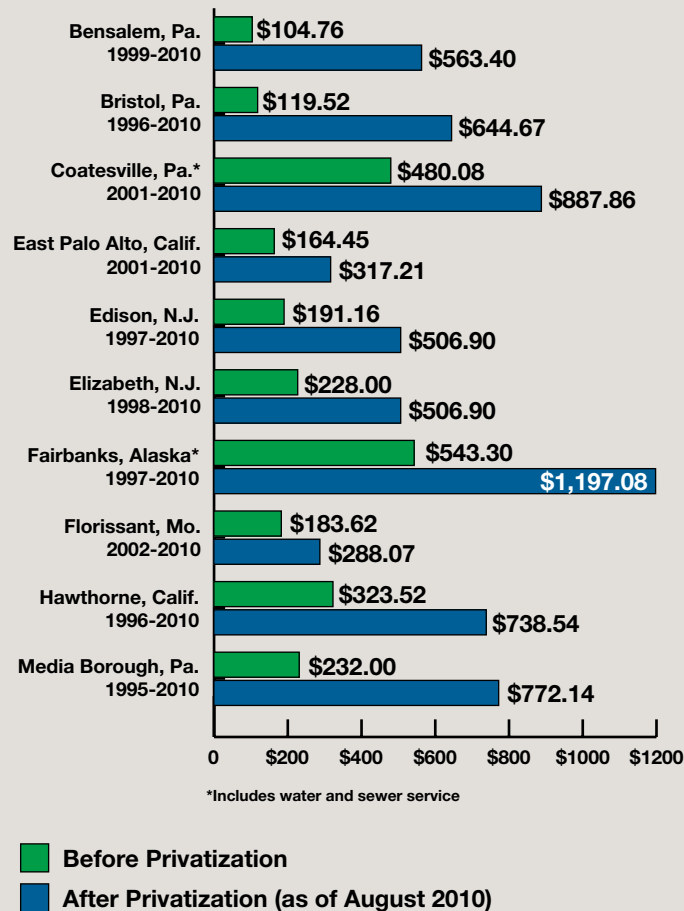
To make matters worse, much like when a person sells an item at a pawnshop, a city is unlikely to be able to cash out the full value of its water system. The consultants for Reading noted this as well: "The current market for transfer of assets is the weakest in years; this would be a particularly bad time to sell."<sup>34</sup> 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 loan<sup>35</sup> — 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.<sup>36</sup> 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.<sup>37</sup> 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.”<sup>38</sup>

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.<sup>49</sup>

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.<sup>50</sup>

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.<sup>51</sup> 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.<sup>52</sup> 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. <sup>39</sup>	11	\$458.64	438%	40%	\$426.22	311%	28%
Bristol, Pa. <sup>40</sup>	14	\$525.15	439%	31%	\$478.60	288%	21%
Coatesville, Pa. <sup>41</sup>	9	\$407.78	85%	9%	\$296.51	50%	6%
East Palo Alto, Calif. <sup>42</sup>	9	\$152.77	93%	10%	\$114.65	57%	6%
Edison, N.J. <sup>43</sup>	13	\$315.74	165%	13%	\$247.08	95%	7%
Elizabeth, N.J. <sup>44</sup>	12	\$278.90	122%	10%	\$201.76	66%	6%
Fairbanks, Alaska <sup>45</sup>	13	\$653.78	120%	9%	\$458.64	62%	5%
Florissant, Mo. <sup>46</sup>	8	\$104.45	57%	7%	\$65.40	29%	4%
Hawthorne, Calif. <sup>47</sup>	14	\$415.02	128%	9%	\$288.73	64%	5%
Media Borough, Pa. <sup>48</sup>	15	\$540.14	233%	16%	\$440.05	133%	9%
<b>Average</b>	<b>12</b>	<b>\$385.24</b>	<b>188%</b>	<b>15%</b>	<b>\$301.76</b>	<b>116%</b>	<b>10%</b>

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.<sup>53</sup> 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.<sup>54</sup>

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.\*<sup>55</sup> 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.<sup>56</sup>

*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.<sup>57</sup>

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

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

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.<sup>63</sup> This could cause conflict.

"If the government ever wanted to change something, the lessee 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.”<sup>64</sup>

*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.<sup>65</sup>

### ***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.<sup>66</sup>

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.<sup>67</sup> 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.<sup>68</sup> 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.”<sup>69</sup>

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.<sup>70</sup>

In 1996, the city auditor’s office reached similar conclusions after evaluating a potential sale at the request of the mayor’s budget office.<sup>71</sup> 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.<sup>72</sup>

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

<b>Income from sale</b>	
<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. <sup>73</sup>	\$40,020,000
<i>Debt refunding.</i> This is the cost to retire the existing water-related bonds. <sup>74</sup>	- \$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. <sup>75</sup>	- \$3,000,000
<b>Net income to the city</b>	<b>\$27,020,000</b>
<b>Community cost of sale over 15 years</b>	
<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. <sup>76</sup>	- \$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. <sup>77</sup>	- \$22,700,000
<b>Total community cost</b>	<b>- \$48,950,000</b>
<b>Net community impact over 15 years</b>	<b>- \$21,930,000</b>

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.”<sup>78</sup>

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.<sup>79</sup>

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.<sup>80</sup>

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.<sup>81</sup>

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.<sup>82</sup>

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

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."<sup>101</sup>

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.<sup>102</sup>

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 <sup>a</sup> Private Owner (parent company)	Type	Population Served
1991	Aberdeen <sup>103</sup>	NJ	Water system	American Water	Sale	10,000
1992	Buchanan County Public Water Supply District No. 2 <sup>104</sup>	MO	Water system	American Water	Sale	4,692
1992	Mendham <sup>105</sup>	NJ	Water system	American Water	Sale	5,000
1992	Union Beach <sup>106</sup>	NJ	Union Beach Water System	American Water	Sale	6,000
1992	Uwchlan Township <sup>107</sup>	PA	Water system	Aqua America	Sale	17,500
1992	West Whiteland Township <sup>108</sup>	PA	Water system	Aqua America	Sale	2,500
1993	Allenhurst Borough <sup>109</sup>	NJ	Water system	American Water	Sale	1,000
1993	Malvern Borough <sup>110</sup>	PA	Water system	Aqua America	Sale	3,000
1993	Summit Township <sup>111</sup>	PA	Summit Township Municipal Authority water system	American Water	Sale	260
1993	Washington Public Service District <sup>112</sup>	WV	Water system in Tornado	American Water	Sale	5,500
1993	West Fork River Public Service District <sup>113</sup>	WV	Water system	American Water	Sale	4,000
1994	Chesterton <sup>114</sup>	IN	Chesterton Utilities water system	American Water	Sale	8,490
1994	Gregg Township <sup>115</sup>	PA	Municipal Authority of Gregg Township water system	American Water	Sale	300
1994	Highlands Borough <sup>116</sup>	NJ	Water system	American Water	Sale	9,000
1994	Ralpho Township <sup>117</sup>	PA	Ralpho Township Municipal Authority Water System	Aqua America	Sale	1,800
1994	Seven Valleys Borough <sup>118</sup>	PA	Seven Valleys Municipal Water System	York Water Company	Sale	525
1994	Southeast Morris County Municipal Utilities Authority <sup>119</sup>	NJ	Brookside water system in Mendham Township	American Water	Sale	800
1995	East Prospect <sup>120</sup>	PA	East Prospect Water Authority water system	York Water Company	Sale	568
1995	Media Borough <sup>121</sup>	PA	Water system	Aqua America	Sale	40,000
1995	Miami Conservancy District <sup>122</sup>	OH	Franklin Area Wastewater Treatment Facility	Veolia	Sale	25,000
1995	Phoenixville Borough <sup>123</sup>	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 <sup>a</sup> Private Owner (parent company)	Type	Population Served
1995	Townsend, Town of <sup>124</sup>	DE	Water system	Artesian Resources	Sale	1,500
1995	Winfield, Town of <sup>125</sup>	WV	Water system	American Water	Sale	1,300
1996	Ansted, Town of <sup>126</sup>	WV	Water system	American Water	Sale	1,812
1996	Bristol Borough <sup>127</sup>	PA	Bristol Borough Authority water system	Aqua America	Sale	30,000
1996	Buffalo <sup>128</sup>	WV	Water system	American Water	Sale	1,235
1996	Hatboro Borough <sup>129</sup>	PA	Hatboro Borough Authority water system	Aqua America	Sale	13,000
1996	Hawthorne <sup>130</sup>	CA	Water system	California Water Service Group	Concession	37,000
1996	Howell Township <sup>131</sup>	NJ	Howell Township Municipal Water System	American Water	Sale	18,000
1996	Jefferson Borough <sup>132</sup>	PA	Jefferson Borough Water Works water system	York Water Company	Sale	613
1996	Morris Township <sup>133</sup>	PA	Morris Township Municipal Water Authority water system	American Water	Sale	831
1996	Pinch Public Service District <sup>134</sup>	WV	Pinch Public Service District water system	American Water	Sale	4,104
1997	Bancroft, Town of <sup>135</sup>	WV	Water system	American Water	Sale	1,400
1997	Culloden Public Service District <sup>136</sup>	WV	Culloden PSD water system	American Water	Sale	3,305
1997	Cupertino <sup>137</sup>	CA	Water system	San Jose Water Company	Concession	14,207
1997	Edison <sup>138</sup>	NJ	Water system	American Water	Concession	35,000
1997	Fairbanks <sup>139</sup>	AK	Fairbanks Municipal Utilities System water and sewer systems	Corix	Sale	34,000
1997	Mossy Public Service District <sup>140</sup>	WV	Water system	American Water	Sale	568
1997	Perkiomen Township <sup>141</sup>	PA	Water system	Aqua America	Sale	1,500
1997	Putnam Union Public Service District <sup>142</sup>	WV	Water system	American Water	Sale	2,941
1998	Clarion Township <sup>143</sup>	PA	Clarion Township General Authority water system	American Water	Sale	903
1998	Elizabeth <sup>144</sup>	NJ	Water system	American Water	Concession	110,000
1998	Farmersburg <sup>145</sup>	IN	Water system	American Water	Sale	1,868
1998	Lashmeet Public Service District <sup>146</sup>	WV	Water system	American Water	Sale	2,050
1998	Mequon <sup>147</sup>	WI	Mequon Water Utility water system	Wisconsin Gas <sup>a</sup>	Sale	1,403
1998	Mountville Borough <sup>148</sup>	PA	Water system	Columbia Water Co.	Sale	1,750
1998	Shiloh Village <sup>149</sup>	IL	Water system	American Water	Sale	4,000
1998	Taylor Township <sup>150</sup>	PA	Taylor Township Municipal Authority water system	American Water	Sale	1,345
1998	West Chester Borough <sup>151</sup>	PA	West Chester Area Municipal Authority water system	Aqua America	Sale	23,500
1999	Applewold Borough <sup>152</sup>	PA	Water system	American Water	Sale	385
1999	Bensalem Township <sup>153</sup>	PA	Water system	Aqua America	Sale	60,000
1999	Big Sandy Water Public Service District <sup>154</sup>	WV	Water system	American Water	Sale	1,013
1999	Bradley Village <sup>155</sup>	IL	Water system	Aqua America	Sale	4,500
1999	Center Township <sup>156</sup>	PA	Water system	American Water	Sale	2,412
1999	Boone County Public Service District <sup>157</sup>	WV	Coal River Public Service District water system	American Water	Sale	5,040
1999	Boone County Public Service District <sup>158</sup>	WV	Spruce Fork Public Service District water system	American Water	Sale	503
1999	Boone County Public Service District <sup>159</sup>	WV	Van Public Service District water system	American Water	Sale	2,743
1999	Chester Borough <sup>160</sup>	NJ	Water system	American Water	Sale	1,500
1999	East Marlborough Township <sup>161</sup>	PA	Water system	Aqua America	Sale	500
1999	Elk Two-Mile Public Service District <sup>162</sup>	WV	Water system	American Water	Sale	1,273
1999	Guthrie Public Service District <sup>163</sup>	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 <sup>a</sup> Private Owner (parent company)	Type	Population Served
1999	Independence Township <sup>164</sup>	PA	Independence Township Municipal Authority Water system	American Water	Sale	1,350
1999	Jumping Branch-Nimitz Public Service District <sup>165</sup>	WV	Water system	American Water	Sale	885
1999	Koppel Borough <sup>166</sup>	PA	Water system	American Water	Sale	1,125
1999	New Wilmington Borough <sup>167</sup>	PA	New Wilmington Municipal Authority and Wilmington Borough jointly owned water system	Aqua America	Sale	140
1999	Railroad Borough <sup>168</sup>	PA	Water system	York Water Company	Sale	310
1999	Riverside Public Service District <sup>169</sup>	WV	Water system	American Water	Sale	132
1999	Salt Rock Water Public Service District <sup>170</sup>	WV	Water system	American Water	Sale	4,350
2000	Franklin Township <sup>171</sup>	PA	Water system	American Water	Sale	800
2000	Salem-Gatewood Public Service District <sup>172</sup>	WV	Water system	American Water	Sale	1,935
2000	Strattanville Borough <sup>173</sup>	PA	Water system	American Water	Sale	747
2000	Summit County <sup>174</sup>	OH	Green City water system	Aqua America	Sale	4,200
2000	West Covina <sup>175</sup>	CA	Water system	Southwest Water	Sale	20,500
2001	Aroma Park <sup>176</sup>	IL	Water system	Aqua America	Sale	2,100
2001	Butler Township <sup>177</sup>	PA	Butler Township Area Water and Sewer Authority water system	American Water	Sale	2,135
2001	Chalfont Borough <sup>178</sup>	PA	Water system	Aqua America	Sale	8,000
2001	Coatesville <sup>179</sup>	PA	City of Coatesville Authority water and sewer systems	American Water	Sale	25,000
2001	East Palo Alto <sup>180</sup>	CA	Water system	American Water	Concession	28,000
2001	Eleanor Town <sup>181</sup>	WV	Water system	American Water	Sale	1,345
2001	Killingly Industrial Park <sup>182</sup>	CT	Killingly Industrial Park Municipal Water System	Connecticut Water	Sale	175
2001	Mahoning Township <sup>183</sup>	PA	Water system	Aqua America	Sale	50
2001	Manville Borough <sup>184</sup>	NJ	Water system	American Water	Sale	11,500
2001	Media Borough <sup>185</sup>	PA	Sewer system	Aqua America	Sale	15,000
2001	Valley Park <sup>186</sup>	MO	Water system	American Water	Sale	3,600
2002	Bolingbrook Village <sup>187</sup>	IL	Water system	American Water	Sale	24,564
2002	Florissant <sup>188</sup>	MO	Water system	American Water	Sale	38,046
2002	Middlebury Town <sup>189</sup>	CT	Water system	Connecticut Water	Sale	600
2002	Webster Groves <sup>190</sup>	MO	Water system	American Water	Sale	23,095
2002	White Haven Municipal Authority <sup>191</sup>	PA	Water and sewer systems	Aqua America	Sale	3,000
2003	Commerce City <sup>192</sup>	CA	Water system	California Water Service Group	Concession	1,333
2003	Connoquenessing Borough <sup>193</sup>	PA	Connoquenessing Borough Authority water system	American Water	Sale	1,551
2003	Grant Park Village <sup>194</sup>	IL	Water system	Aqua America	Sale	1,500
2003	Indianola Village <sup>195</sup>	IL	Water system	Aqua America	Sale	450
2003	LeClaire <sup>196</sup>	IA	Water system	American Water	Sale	2,868
2006	Logan County Public Service District <sup>197</sup>	WV	Sharples water system	American Water	Sale	200
2003	Monterey County <sup>198</sup>	CA	Las Palmas Ranch, Monterey County Service Area 72 sewer system	American Water	Sale	3,377
2003	Monterey County <sup>199</sup>	CA	Carmel Valley County Sanitation District sewer system	American Water	Sale	1,706
2003	Monterey County <sup>200</sup>	CA	Chualar Water, County service area 75 water system	American Water	Sale	614
2003	Monterey County <sup>201</sup>	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 <sup>a</sup> Private Owner (parent company)	Type	Population Served
2003	Monterey County <sup>202</sup>	CA	Ralph Lane Water; County service area 69 water system	American Water	Sale	66
2003	Sandy Ridge <sup>203</sup>	PA	Sandy Ridge Water Authority water system	American Water	Sale	495
2003	West Decatur <sup>204</sup>	PA	West Decatur Authority water system	American Water	Sale	700
2004	Dune Acres Town <sup>205</sup>	IN	Water system	American Water	Sale	300
2004	Saunemin Village <sup>206</sup>	IL	Water system	American Water	Sale	647
2004	Sligo Borough <sup>207</sup>	PA	Sligo Borough Authority water system	American Water	Sale	700
2005	East Fallowfield Township <sup>208</sup>	PA	Water and sewer systems	American Water	Sale	315
2005	Hanover Village <sup>209</sup>	NJ	Water and sewer systems	Aqua America	Sale	300
2005	Los Trancos County Water District <sup>210</sup>	CA	Los Trancos Water District	California Water Service Group	Sale	1,200
2005	Owenton <sup>211</sup>	KY	Water and sewer systems	American Water	Sale	4,300
2005	Philo Village <sup>212</sup>	IL	Water system	Aqua America	Sale	1,300
2005	Shelby County <sup>213</sup>	AL	Sewer system	Southwest Water	Sale	11,440
2005	Shippenville Borough <sup>214</sup>	PA	Shippenville Borough Authority water system	American Water	Sale	674
2005	Spring Grove Borough <sup>215</sup>	PA	Water system	York Water Company	Sale	5,250
2006	Marion County <sup>216</sup>	TN	Suck Creek Utility District water system	American Water	Sale	575
2007	Abbottstown Borough <sup>217</sup>	PA	Abbottstown Municipal Authority water system	York Water Company	Sale	800
2007	Ceredo, Town of <sup>218</sup>	WV	Water system east of Twelvepole Creek	American Water	Sale	520
2007	Clendenin <sup>219</sup>	WV	Water system	American Water	Sale	1,895
2007	Manteno Village <sup>220</sup>	IL	Water system	Aqua America	Sale	10,000
2007	Milton, Town of <sup>221</sup>	DE	Sewer system	Middlesex Water	Sale	2,400
2007	Mount Ephraim <sup>222</sup>	NJ	Water system	American Water	Sale	4,495
2007	Pesotum Village <sup>223</sup>	IL	Water system	American Water	Sale	520
2007	Seaside Heights Borough <sup>224</sup>	NJ	Pelican Island water system	American Water	Sale	300
2007	Summerdale Town <sup>225</sup>	AL	Sewer system	Baldwin County Sewer Service LLC	Sale	206
2007	Sun River Terrace Village <sup>226</sup>	IL	Water system	Aqua America	Sale	600
2008	Clarion Borough <sup>227</sup>	PA	Clarion Area Authority sewer system	American Water	Sale	6,600
2008	Claysville-Donegal Joint Municipal Authority <sup>228</sup>	PA	Water and sewer systems	American Water	Sale	1,265
2008	Fayetteville <sup>229</sup>	WV	Water and sewer systems	American Water	Sale	4,500
2008	Jefferson City <sup>230</sup>	MO	North Jefferson water system	American Water	Sale	80
2008	Shelby County Governmental Utility Services Corporation <sup>231</sup>	AL	Riverview sewer system	Southwest Water	Sale	12,000
2008	South Vinemont <sup>232</sup>	AL	Sewer system	Integra Water	Sale	600
2009	Amwell Township <sup>233</sup>	PA	Amwell Township Water Authority water system	American Water	Sale	499
2009	Arbuckle Public Service District <sup>234</sup>	WV	Water system	American Water	Sale	500
2009	Athens Township <sup>235</sup>	PA	Water system	Aqua America	Sale	18
2009	Boggs Township <sup>236</sup>	PA	Boggs Township municipal authority water system	American Water	Sale	300
2009	Kratzerville <sup>237</sup>	PA	Kratzerville Municipal Authority water system	Aqua America	Sale	400
2009	Lower Colorado River Authority <sup>238</sup>	TX	Harper Water System in Gillespie County	Aqua America	Sale	333
2009	Lower Colorado River Authority <sup>239</sup>	TX	London Water System in Kimble County	Aqua America	Sale	114
2009	Saxonburg Borough <sup>240</sup>	PA	Saxonburg Area Authority water system	American Water	Sale	3,600
2009	Sewerage District No. 6 <sup>241</sup>	LA	Sewer system in St. Tammany Parish	Utilities, Inc.	Sale	2,491
2009	Wallacetown <sup>242</sup>	PA	Wallacetown Municipal Authority water system	American Water	Sale	375
2009	Waveland Town <sup>243</sup>	IN	Waveland Water Utility	American Water	Sale	500
2009	West Manheim Township <sup>244</sup>	PA	Water system	York Water Company	Sale	4,487
2010	Bloomsbury <sup>245</sup>	NJ	Water system	Aqua America	Sale	1,000
2010	Marion Heights Conservancy District <sup>246</sup>	IN	Water system	American Water	Sale	1,100

<sup>a</sup> 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.<sup>247</sup>

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 <sup>248</sup>	OH	Water system		Sale	1,574
2008	Stopped	Akron <sup>249</sup>	OH	Sewer system		Concession	330,000
2010	Active	Auxvasse <sup>250</sup>	MO	Water system	American Water	Sale	901
2010	Active	Bexar Metropolitan Water District <sup>251</sup>	TX	Water systems in Comal County	San Jose Water Company	Sale	1,530
2009	Stopped	Carbondale <sup>252</sup>	IL	Water and sewer systems		Sale	25,597
2010	Active	Cecil County <sup>253</sup>	MD	Meadowview, Pine Hills, Habourview, Route 7 water systems; Meadowview, Highlands, Cherry Hill, Habourview sewer systems	Artesian Water	Sale	4,837
2010	Active	Chicago <sup>254</sup>	IL	Water and sewer systems		Concession	2,896,016
2010	Active	Conshohocken <sup>255</sup>	PA	Sewer system	Aqua Wastewater Management, American Water Works	Sale	3,000
2010	Active	Crothersville <sup>256</sup>	IN	Water system	American Water	Sale	1,800
2010	Active	Detroit <sup>257</sup>	MI	Water and sewer systems		Either	4,000,000
2010	Stopped	East Hempfield <sup>258</sup>	PA	Water system	Aqua America	Sale	16,761
2009	Stopped	Farmington <sup>259</sup>	PA	Water system	Aqua America	Sale	916
2010	Active	Fairfield <sup>260</sup>	NJ	Sewer system	Aqua America	Sale	6,283
2010	Active	Fresno County <sup>261</sup>	CA	Quail Lake, County Service Area 47 water system	California Water Service Company	Sale	1,265
2008	Stopped	Gloucester <sup>262</sup>	MA	Water system	United Water	Sale	45,409
2010	Active	Harrisburg <sup>263</sup>	PA	Water and sewer systems	United Water	Either	66,540
2010	Stopped	Hazleton <sup>264</sup>	PA	Water system		Sale	42,066
2010	Stopped	Houtzdale <sup>265</sup>	PA	Water system	American Water	Sale	6,200
2010	Active	Kansas City <sup>266</sup>	MO	Sewer system		Concession	653,000
2010	Active	Kennett Square <sup>267</sup>	PA	Water system	Aqua America	Sale	5,782
2010	Stopped	Knob Noster <sup>268</sup>	MO	Water and sewer systems	American Water	Sale	2,350
2009	Stopped	LeClaire <sup>269</sup>	IA	Sewer system	American Water	Sale	2,734
2010	Active	Lemoyne <sup>270</sup>	PA	Sewer system	American Water	Sale	4,000
2008	Stopped	Lower Makefield <sup>271</sup>	PA	Sewer system	Aqua America	Sale	33,000
2010	Stopped	Marion <sup>272</sup>	IN	Water and sewer systems	American Water, Aqua America and United Water	Sale	31,590
2010	Active	Martinsville <sup>273</sup>	IN	Water system		Sale	15,000
2009	Stopped	Milwaukee <sup>274</sup>	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 <sup>275</sup>	PA	Water system	American Water, Aqua America	Sale	1,500
2010	Active	Mount Olive <sup>276</sup>	NJ	Water system	United Water, American Water	Either	7,300
2010	Active	Nassau County <sup>277</sup>	NY	Sewer system		Concession	1,132,000
2010	Active	New Cumberland <sup>278</sup>	PA	Sewer system	American Water	Sale	7,349
2009	Active	New Market <sup>279</sup>	IN	Water and sewer systems	American Water	Sale	756
2010	Active	New Whiteland <sup>280</sup>	IN	Water system	American Water	Sale	5,648
2010	Active	Pittsburgh <sup>281</sup>	PA	Water and sewer systems		Either	250,000
2010	Active <sup>a</sup>	Port Deposit <sup>282</sup>	MD	Water system	Artesian Water	Sale	725
2010	Active	Pottstown <sup>283</sup>	PA	Water treatment plant	Aqua America	Sale	36,000
2010	Active	Providence <sup>284</sup>	RI	Water and sewer systems		Sale	600,000
2010	Active	Reading <sup>285</sup>	PA	Water system		Sale	87,000
2008	Stopped	Reno, Sparks and Washoe County <sup>286</sup>	NV	Truckee Meadows Water Authority water system	Goldman Sachs	Concession	311,932
2010	Active	Rialto <sup>287</sup>	CA	Water, sewer and recycled water systems	American Water/ Table Rock Capital	Concession	100,000
2010	Active	Riley <sup>288</sup>	IN	Water system	American Water	Sale	1,652
2010	Active <sup>b</sup>	San Jose <sup>289</sup>	CA	Water system	San Jose Water Company, Veolia	Either	110,000
2010	Active	Sellersville <sup>290</sup>	PA	Water system		Sale	4,900
2010	Active	Slippery Rock Borough <sup>291</sup>	PA	Slippery Rock Municipal Authority water system		Sale	8,350
2010	Active	Spotswood <sup>292</sup>	NJ	Water system	United Water	Sale	8,300
2010	Active	Sussex <sup>293</sup>	NJ	Water system	United Water	Sale	2,201
2010	Active	Tamaqua <sup>294</sup>	PA	Water and sewer systems		Sale	8,000
2010	Stopped	Temple <sup>295</sup>	GA	Water and sewer systems	Integra Water	Concession	4,420
2010	Active	Toledo <sup>296</sup>	OH	Sewer system		Sale	346,000
2010	Stopped	Trenton <sup>297</sup>	NJ	Ewing, Hamilton, Lawrence and Hope Townships water system	American Water	Sale	120,000
2010	Active	Tulsa <sup>298</sup>	OK	Water and sewer systems		Concession	471,000
2010	Active	West Terre Haute <sup>299</sup>	IN	Water system	American Water	Sale	2,495
2010	Stopped	Winslow <sup>300</sup>	NJ	Water and sewer systems		Sale	10,300
2010	Active	Wolcottville <sup>301</sup>	IN	Sewer system		Sale	2,374
2010	Active	Worcester <sup>302</sup>	MA	Water system		Either	173,966
2010	Active	York Springs <sup>303</sup>	PA	Water system	York Water Company	Sale	850

<sup>a</sup> Acquisition of Port Deposit's water system was completed November 2, 2010.

<sup>b</sup> 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.<sup>304</sup> There is no single correct way to determine capital costs, particularly the return on equity,<sup>305</sup> 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. <sup>306</sup>
Cost of debt	6%	The cost of debt is the average interest rate on a company's outstanding bonds and loans. <sup>307</sup> The daily average interest rate on a private utility bond was 6.46 percent in 2009. <sup>308</sup> The new debt issuance rates of American Water, the largest U.S. water utility, were 6.5 percent to 8.5 percent in 2009. <sup>309</sup>
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. <sup>310</sup>
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. <sup>311</sup> 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, <sup>312</sup> and the federal income tax rate is 35 percent for large corporations. <sup>313</sup>

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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