

# Water and Sewer Privatization Contributes to Sprawl

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Several cash-strapped municipalities, burdened by costly water improvements, have considered turning their water systems over to private water utilities. Water privatization, however, could have environmentally damaging consequences and contribute to destructive sprawling development patterns.

Rather than let private utilities take over under-funded publicly owned systems, our country needs a clean water trust fund to protect natural resources and keep water systems in the hands of the public. The trust fund should dedicate the limited federal dollars for water infrastructure to the most deserving projects, including green infrastructure. It should not subsidize private utilities that could prioritize earnings over consumers and the environment.

## Private Water Utilities Can Profit from Sprawl

Private utilities typically choose projects that are most profitable, despite potential long-term environmental consequences. Because of how state regulators determine rates, investor-owned utilities increase their earnings when they invest in costly water main extensions and infrastructure projects.<sup>1</sup> This provides a strong financial incentive for them to expand their service to low-density areas, contributing to sprawling development with taxpayers paying for the damage.

Private water and sewer utilities, in fact, *facilitate* new sprawling developments. Unlike municipal utilities, they are not restricted by political boundaries and can build new treatment plants in developments remote from existing systems.<sup>2</sup> The financial burden of building and servicing sprawling development falls on the taxpayer and ratepayer.<sup>3</sup>



The long main extensions required for low-density housing and the leap-frog nature of sprawl, coupled with the duplication of water and sewer lines controlled by different utilities, ultimately lead to greater infrastructure costs per customer.<sup>4</sup> Water companies profit from their equity investments, but consumers pay higher water bills. Sprawling development increases the cost of new water and sewer hook-ups by an estimated 20 to 40 percent.<sup>5</sup>

Sprawl hurts not only consumers' pocketbooks but also their water resources. For example, low-density sprawling areas use almost 400 million gallons more water per year than compact high-density communities, primarily because of greater outdoor water use, including lawn watering.<sup>6</sup>

Increased development can also harm the water supply because it changes the natural landscape. When rain hits hard pavement instead of dirt, it cannot filter naturally into the ground and recharge the underground aquifers that supply water to wells, rivers, lakes and streams. Instead, it is often diverted into storm drains and discharged into surface waters, which can result in profound groundwater changes.<sup>7</sup> This can strain local drinking water sources that rely on groundwater. It can lead to sewer overflows if increased stormwater quantities enter the sewers and overload the pipes. It can also cause runoff and flooding, both of which degrade water quantity and quality and contribute to higher water treatment and flood mitigation costs.<sup>8</sup>



## Two Ways Private Water Utilities Contribute to Sprawl

Private utilities contribute to sprawling development primarily in two ways:

### *Developer Deals*

Investor-owned utilities frequently seek out growth ventures with private real-estate developers to provide water and sewer services to new satellite developments.<sup>9</sup> In doing so, they facilitate new construction and growth in areas far from existing systems.<sup>10</sup>

Since municipalities typically cannot or do not want to spend public resources to serve sprawling areas outside of their tax base,<sup>11</sup> developers often turn to private utilities, which can draft the required plans and acquire the necessary permits for new systems.<sup>12</sup> As private utilities build new lines to meet developers' demands, the main extensions "leap-frog" over the landscape and contribute to a sprawling development pattern.<sup>13</sup>

### *Water Line Extensions and the Misuse of Public Funding*

Private utilities may use public funding to finance projects that contribute to sprawling growth and development.

In several states, including Pennsylvania, private utilities frequently seek public funding from the Drinking Water State Revolving Fund, which provides federally subsidized grants and low-interest loans to help improve drinking water systems. In most states, private utilities can access this taxpayer-supported funding<sup>14</sup> and use it to expand their service areas through the creation of new water systems

and the extension of water main lines, if the plans meet certain eligibility criteria.<sup>15</sup>

Although regulated utilities do not earn a return on debt, cheap loans can finance projects to facilitate future expansions, keep debt costs down to enable higher returns on equity and free up other capital resources to invest in projects to boost profits.

## Examples

### *Pennsylvania American Water Using Public Funding for System Connections and Extensions*

Pennsylvania America Water, a subsidiary of American Water, the largest U.S. water utility corporation, receives considerable funding from the Pennsylvania Infrastructure Investment Authority (PENNVEST). PENNVEST provides federal and state funding for water infrastructure and other environmental projects throughout the Commonwealth of Pennsylvania. Pennsylvania America Water has received almost \$80 million from PENNVEST between 1988 and 2007, and it received more than half of all PENNVEST funds distributed to projects in Clarion County.<sup>16</sup>

Part of the public funding went into line extensions and new system development. For example, the company used \$2.4 million in low-interest loans to construct a water main extension in Washington County and a three-mile pipeline in Allegheny County to provide water services to new customers.<sup>17</sup> In effect, it used public funds to grow its business and perhaps contribute to sprawl.

New sewage systems enabled the expansion of sprawling development into rural areas of southeastern Pennsylvania during the 1990s. For example, during that decade, half of



new homes in Montgomery County sprang up in areas with recent sewer availability.<sup>18</sup> With private utilities owning more than 40 percent of all sewage treatment facilities in this area,<sup>19</sup> suburban sprawl is becoming an ever-increasing problem in the area.

### ***West Virginia American Water as “the Spider”***

West Virginia American Water, the largest investor-owned drinking water utility in the state, provides drinking water to more than 600,000 people across West Virginia.<sup>20</sup> The company thrives on expansion. It keeps detailed information about ideal prospective service areas, and it has been known to use its entire capital supply to access new customers.<sup>21</sup> This aggressive expansion strategy has earned it the nickname “the Spider.”<sup>22</sup>

West Virginia American Water works with local municipalities to finance many infrastructure projects. Its partnership with Oakvale Public Services District, a public utility, resulted in the construction of 64 miles of pipelines that connected several communities. The public utility took out \$15 million in loans to finance the extensions, which it owns. The company operates and maintains the lines, paying the public utility \$670,000 annually to cover the debt costs.<sup>23</sup>

In another case, West Virginia American Water used West Virginia’s Industrial Development Bonds through a capital-lease agreement to finance a large portion of its Fayette Plateau project, which included a new treatment plant and miles of piping. After completing the construction of the facilities, the legal titles were transferred back to the Fayette County Commission, rendering them public property, thus allowing tax-free leasing of the facilities back to the company.<sup>24</sup>

Despite the public subsidies, as the company aggressively expands, consumers must shoulder growing water bills. It charges the highest rates of all major water utilities in the state. In 2008, the company sought another rate increase in part to recuperate costs associated with line extensions. According to the state’s deputy consumer advocate, the company tries to justify the cost of building or improving water systems by claiming that economic development and growth would follow.<sup>25</sup>

Through partnerships deals with public utilities and ever-increasing rates, West Virginia American Water continues to thrive and expand, just as “the Spider” nickname suggests.

### ***Unaccountable Service in Huber Heights, Ohio***

When a municipality sells its water system to a private utility, it loses control over the system. The company can construct line extensions and serve new areas outside of city limits. It could lead to new development and sprawling growth that the city does not want.

Huber Heights, Ohio, tried to purchase its water system from a private utility company, but lost out to another private utility, American Water. The city worried that the new company would increase rates and extend water lines outside of the city, affecting the community’s economic growth.<sup>26</sup>

As the city explored ways to take over the system, the company rushed through a 25-year contract to extend a pipeline to an industrial park outside the municipal limits. The city would have required annexation before supplying the water. The company agreed to sell one million gallons of water per day to the industrial park, even though the park used only 1 percent of that amount, 10,000 gallons per day. By serving water to businesses outside municipal boundaries without requiring annexation to the city, the company cost the city potential tax revenue, and it may have left the residents of Huber Heights subsidizing the expansion without reaping any economic benefits.<sup>27</sup>

## **A Better Option: A Clean Water Trust Fund**

Municipalities can get the funding they need for improvements to their water and sewer systems without resorting to privatization. A clean water trust fund can provide this assistance to help renovate water and sewer systems, improve water quality and protect watersheds.





The funding, however, should be available only to publicly owned and operated water and sewer systems. Private utilities are costly to both consumers and to the environment. They must be excluded from the trust fund, so federal dollars do not support their service area expansions and any associated sprawling development patterns.

Instead, the trust fund will provide municipalities with the means to update aging infrastructure systems, focusing on green infrastructure projects and the repair of leaky pipes. These projects include low-impact development, green roofs, water harvesting and conservation.

Green infrastructure can help mitigate environmental issues related to low-density growth and development. In addition to protecting natural resources, well-planned communities and green infrastructure development can help keep water services affordable by decreasing the cost of water and wastewater treatment.<sup>28</sup> They can also keep local water supplies healthy by ensuring that rainwater can flow back into local groundwater or surface water resources.<sup>29</sup>

Communities and the environment will benefit from a shift away from sprawling development patterns toward a more conservation-minded model.

The privatization of water systems contributes to sprawl at the expense of the taxpayer. Private utilities' growth and development can adversely affect the environment, including water resources. A clean water trust fund, allocated only to public utilities, will help prevent the privatization of municipal water systems and protect natural resources.

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