



Faulty Pipes

Why Public Funding—Not Privatization—is the Answer for U.S. Water Systems

food&waterwatch



About Food & Water Watch

Food & Water Watch is a nonprofit consumer rights organization, based in Washington, DC, that challenges the corporate control and abuse of our food supply and water resources.

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Executive Summary

From maintenance problems in Atlanta and sewage spills in Milwaukee, to corruption in New Orleans and political meddling in Lexington, the recent history of water privatization in the U.S. is marred by underachievement and failure. During the 1990s, corporations – many of them multi-billion-dollar conglomerates based overseas – persuaded communities throughout the nation to transfer control of their systems to the private sector.

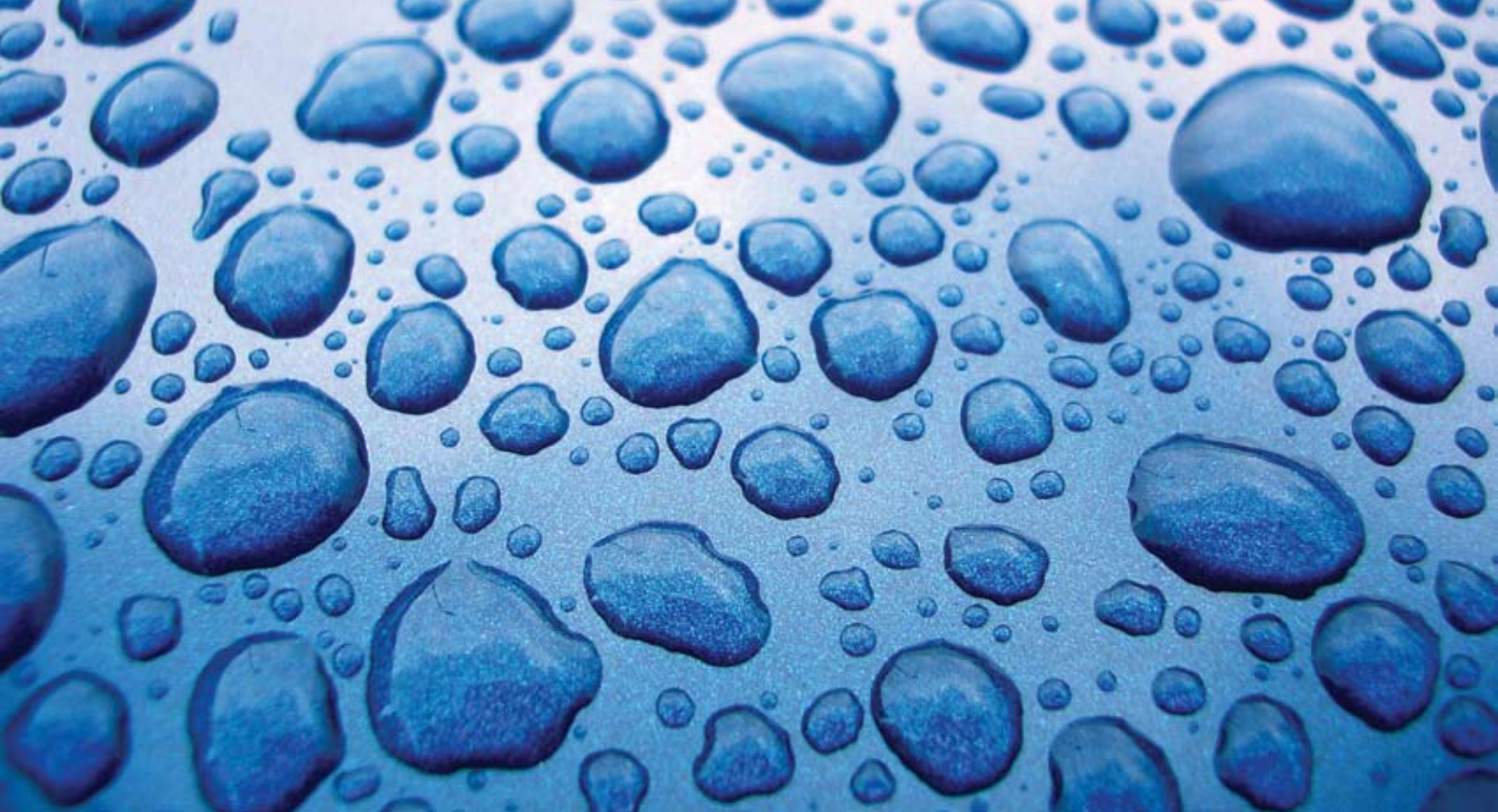
Corporations offered themselves as the solution for funding, technical and organizational challenges faced by municipalities throughout the U.S., which face stricter standards, diminishing federal funding and a citizenry not keen on rate increases. But these corporations – mainly European multinationals RWE, Suez and Veolia – have produced mixed results. The privatization bubble is bursting.

As stories like those chronicled in this report have mounted in recent years, elected officials and citizens alike view water privatization with increased skepticism.

Instead, the answer to the water infrastructure crisis is a renewed commitment to public funding; through enhancement of the State Revolving Funds and by creating a national water infrastructure trust fund. The federal government maintains trust funds for roads and airports – even the Capitol Rotunda’s frescoes and wildlife in South Dakota – but not for water.

Local elected officials and citizens are also taking matters into their own hands. Movements are afoot in a growing number of communities – Lexington, KY; Felton, CA; and Champaign-Urbana, IL to name a few – to buy their water systems from corporations.

Eighty-six percent of Americans receive their water from public utilities. Public utilities are accountable to the consumers they serve and in most cases are extremely well managed. In the future, they should be preserved and improved.



“There are only two things that prevent politicians from doing anything: Money and politics.” – Anon.

Introduction: Is Water Changing?

September 17, 2001, was a bright day for RWE. Already a major utility player in Europe, Asia and South America, the German conglomerate announced it was buying American Water Works, the largest investor-owned water and wastewater company in the U.S.

The timing of the statement – six days after 9/11 – puzzled some. But RWE President and CEO Dietmar Kuhnt said putting it off might send the wrong signal. “Rather than delay, we are making this announcement today because we believe it is more important than ever to show the world that we are investing in America,” Kuhnt said. “We believe in the courage and resiliency of its people and remain ever confident in its future.”¹

As it was, such an aggressive entrance to the U.S. market represented a giant leap for RWE and its stockholders. The earnings potential in a country where only 13 percent of the people receive their water from private corporations was tremendous. RWE also made a pledge to give something back, saying it was “strongly committed to preserving the environment, participating in local activities, and otherwise adding value to the communities in which [we] operate.”²

Invoking 9/11 elevated the acquisition to an even higher level. The company wanted to help the U.S. recover from one of the darkest days in its history.

RWE’s confidence lasted only four years.

November 2005, three months after saying the operation was “making progress,”³ RWE announced it was selling American Water. “Water’s changed,” corporate executives explained.⁴ However, it appeared that stockholders were growing uneasy with the corporation’s huge debt and lagging stock price. Selling American Water (as well as its UK operation, Thames Water), executives told stockholders, would allow the company to “return a substantial portion of cash to you.”⁵

In the end, what mattered most to RWE was not serving communities or helping the U.S. rebound from tragedy. It was the bottom line.

Prominent water industry analyst Debra Coy predicted as much just eight months earlier. “We would not be surprised to see some European utility owners and operators start pulling out of the U.S. in 2005,” she said, “as politics and poor profits continue to depress their interest in this market.”⁶

Indeed, perhaps there was something more to RWE’s decision than money. A leading industry publication, *Global Water Intelligence*, blames the sudden retreat of multinational corporations not just on financial risks, but also on politics – “the huge campaign costs to win.” And, it warned that cities “may have to trim their expectations of savings and performance guarantees,”⁷ which will no doubt put intense pressure on elected officials to think twice about privatizing.

In the Spotlight The Good Tax: Felton, California

Yard sales. Silent auctions. Community barbecues. Benefit concerts, pizza dinners and poetry contests.

Raising money to buy band uniforms for the local high school? Hardly. How about a small town trying to buy its water system from a multinational corporation?

“They thought we were a bunch of hippies. They didn’t expect so much opposition from the community.”

Jim Graham is the spokesperson of a campaign by residents of Felton, CA, to buy its water system from RWE’s local subsidiary, California American Water – better known as Cal-Am.



Jim Graham

Felton wasn’t really known for much more than its 19th century, narrow-gauge railway that winds through a redwood forest, until recently. Today, this rural town of about 1,000 just up the road from Santa Cruz has gained fame as the home of Felton FLOW – Friends of Locally Owned Water.

FLOW began holding weekly meetings at the Felton Firehouse in November 2002, the day after Cal-Am proposed a 74 percent rate increase. “It’s been going like a tidal wave ever since,” says Graham, owner of a public relations firm who volunteers for FLOW on the side.

FLOW has been fighting Cal-Am on many fronts. The group opposed the rate increase, urged Santa Cruz County to create a public agency to control the water system, and opposed Cal-Am’s plan to merge the Felton and Monterey water districts. It’s raised about \$90,000 for legal fees and other expenses. Members have knocked on every door in town to get people informed and involved – three times.

FLOW’s crowning achievement – so far, that is – is Measure W, which passed by a 3-to-1 margin in July 2005. Hard to believe as it may be, Felton residents voted to raise their own taxes for up to 30 years – in Graham’s case, by \$598 a year – to amass enough money to buy the water system from Cal-Am. If an offer doesn’t work, and if state officials don’t require RWE to sell Felton’s system to the community as part of its sale of American Water, Graham says FLOW wants the water system to be seized by eminent domain.

Cal-Am responded, Graham says, by funding a local property owners’ group to disrupt FLOW’s efforts. “What they typically try to do is co-opt an existing group in the community.” The property owners’ group sued to keep Measure W off the ballot and then challenged the results. The corporation has conducted mailings criticizing the local buyout, tried to block FLOW from filing objections with regulators, and according to *The Monterey Herald* backed legislation to restrict eminent domain actions. According to FLOW, the corporation even called the police on a resident who took pictures of a water-main break.

The struggle, Graham says, has galvanized Felton like never before. “There’s a joke around here: The one good thing about Cal-Am is that it has brought the community together.”

Graham says FLOW is in this for the long haul. “Cal-Am has been given monopoly status and is taking money out of our community. We are not going to stop until we get our water system.”

“We would not be surprised to see some European utility owners and operators start pulling out of the US in 2005.”

*- water industry analyst
Debra Coy*

Americans don't seem to like the idea of privatization to begin with – they oppose the concept in general by a 45-31 percent margin, according to one national poll.⁸

Judging by what is unfolding in cities across America, decisions to hire – or fire – private water companies are becoming more political, and citizens are getting involved like never before.

“God help any politician who brings this up again,” said Craig Neely, president of the Borough Council of Emmaus, PA, which voted against privatizing its water system in September 2005.⁹ Council members in this small town near Allentown quickly backed away from the idea after receiving petitions signed by hundreds of residents and driving past storefronts with anti-privatization signs taped in their windows.

In Mexico, MO, near Columbia, residents voted by a 2-to-1 margin in April 2006 against selling the town's wastewater treatment facility to RWE subsidiary Missouri American,



surprising a local official who wanted to “get rid of the thing.”¹⁰

In May 2006, RWE's abrupt decision to drop a lawsuit against Lexington, KY, cleared the way for citizens to vote this November on whether the city should acquire the water system by eminent domain. In Illinois, legislation that would make it easier for communities to condemn and take over local water systems – which Champaign, Urbana and several other communities are exploring - could soon become law. In Central California, Felton wants to do the same. Mayors and elected officials in Charleston, WV; Chattanooga, TN; Gary, IN and a number of other cities are also weighing options for purchasing their water utility when RWE sells American Water.

In the small beachtown of Montara, CA, residents persuaded regulators to force RWE to sell its water system to the community. Local officials are investing in long-overdue improvements, including new wells, storage tanks, meters and treatment equipment. “We can afford these things,” said Scott Boyd, president of the town's water and sewer board. “We don't have to show a profit.”¹¹

Money and politics, so the saying goes.

The Party's Over

It's hard to believe that within just a few years “the bubbles seem to have gone flat for the global utility firms,” in Debra Coy's words.¹²

RWE's \$7.6 billion acquisition of New Jersey-based American Water Works in 2001 was just one of three rapid-fire





mega-mergers that held the potential to realign the international water industry. Suez of Paris, the world's second-largest water corporation, paid \$6 billion for New Jersey-based United Water in 2000. And in 1999, world market-leader Veolia (then Vivendi), also headquartered in Paris, bought California-based USFilter for \$8 billion.

Facing the double-whammy of stricter water quality standards and aging infrastructure, local officials needed solutions to serious political and financial problems. These multinationals seemed to offer hope. They said they could cut costs – and thus keep rates down – through downsizing, streamlining and other efficiency measures. They said they had technical expertise public operators supposedly lacked. And they said they had better access to capital.

The corporations played up the funding gap for water infrastructure. Hundreds of millions of dollars were needed to repair, upgrade and replace infrastructure, and there simply wasn't enough public money available for the job. They began a campaign to convince elected officials and citizens throughout the U.S. that businesses could do the job better and cheaper than governments.

These arguments began to take root despite a sizable amount of evidence to the contrary: that 86 percent of Americans receive their water from publicly-owned systems¹³ that generally perform well; that private financing is almost always more expensive than public financing; and that governments don't have to factor in the hefty expenses of taxes and profit.

Many privatization experiments elsewhere in the world, particularly in Latin America, were failing spectacularly. Bechtel was forced out of Cochabamba, Bolivia, following

weeks of violent, deadly conflict in 2000. Veolia left Puerto Rico in 2001 amid a sea of debt and fines. (Later, Suez would be ejected.) Corporations encountered serious problems in Argentina, Brazil and Chile, among other countries.

Things were supposed to be different in the U.S. Political and economic instability wouldn't be a problem, a wealthier population meant customers would be more able to pay their bills, and suspicion and distrust of large corporations is generally less pronounced.

But the multinationals faced a different set of problems in the U.S. Instead of riots and boycotts, they confronted regulatory agencies protecting consumer interest, skeptical citizens who did not particularly like the idea of private control of water and labor unions questioning the rationale of downsizing staff without cutting corners.

The first major snag was New Orleans – a privatization set to be the largest in the U.S. Both Suez and Veolia bailed out in 2002 after local officials grew wary of a proposed water contract, and voters won the right to reject privatization deals at the ballot box. A bribery scandal eventually emerged, as it had in connection with an earlier sewer privatization contract.

Then came Atlanta, where Suez's largest U.S. contract was terminated in 2002 following chronic repair, maintenance, billing and other problems. Corruption also reared its head there, when the company was linked to questionable payments to Mayor Bill Campbell, who awaits sentencing on a tax evasion conviction.

The failure further raised citizen's awareness – with a growing opposition questioning whether these corporations are offering a better deal considering their tremendous failures.

“God help any politician who brings this up again.”

- Craig Neely, Borough Council president of Emmaus, PA

Just how gloomy is the future of privatization – or as the corporations have labeled their involvement: public-private partnerships - in the U.S.? “The concession model is a failure. Everyone knows that,” Patrick Cairo, executive vice president of Suez's North American operations, said April 2006, referring to the model that in fact his own corpora-

In the Spotlight

Thinking Locally, Acting Globally: Champaign-Urbana, Illinois

Just how serious is Mayor Laurel Prussing about buying back her town's water system from RWE? In April 2006, she traveled from Urbana, IL, to the company's headquarters in Essen, Germany, to speak at its annual shareholder meeting. There, she made her case to corporate executives and shareholders that they should sell Champaign-Urbana's water system to its 150,000 citizens – not put it up for bid to Wall Street investors, as RWE is planning for its U.S. operation, American Water.

"I told them we are willing to give them a good price. I said rather than get into a big fight, all the effort and money that's been spent on this political war should be spent maintaining the system properly."



Laurel Prussing

Instead of boos and hisses, she got applause – and greetings from audience members who said they didn't know anything about the problems with the area's water system. Prussing said that since RWE bought American Water in 2002, several boil-water notices have been issued, fire hydrants have malfunctioned and customer service has suffered.

"A few months ago, I got a notice on my door saying the water was turned off, and that when it came back on, I needed to boil it before I used it. I called an 800 number, but they didn't have a clue what I was talking about." This should really come as no surprise as the customer service is located in Florida.

When firefighters responded to a recent fire, Prussing said, the nearest hydrant wouldn't open, so they had to search for one that worked. "Nobody died, but someone could have."

Prussing and Mayor Gerald Schweighart of neighboring Champaign are backing legislation that would make it easier for communities to use eminent domain to purchase privately-owned water systems. Prussing's lengthy political résumé might help: she's a former state House member, Champaign County Board member and County auditor. The bill passed the House and Senate in the spring of 2006 and awaits Gov. Rod R. Blagojevich's signature.

As it stands now, Prussing said, it's easier for a foreign corporation to buy a water system than it is for a local government. Pekin, near Peoria, tried buying its system from RWE subsidiary Illinois American Water in 2004 but was blocked by state officials.

RWE has politicized the standoff, she says, by conducting biased "push poll" telephone surveys, influencing local elections and distributing materials opposing the buyout plan. But Prussing, a public financing expert, says the effort has nothing to do with politics. "It's about quality and service – public health and public safety. And accountability. What's theirs? Nada."

"They're willing to put money in a big PR blitz, but the way to promote good will is to provide good service – not pulling the wool over people's eyes," she says. "All the money they've spent to terrorize us – it's disgusting. They're trying to intimidate us so we won't do anything. They crush small communities."

Prussing says she's still willing to talk with RWE about making an offer, but her patience is running thin.

"We don't want to mess with these people anymore. It's unnerving to deal with a company that's so arrogant. You can't talk to them. They're so big and used to getting their own way," she says. "They aren't running it for our benefit – they're doing it for their benefit. What it boils down to is: Who do you want to own the system? We think we can do a better job."

“The concession model is a failure. Everyone knows that.”

- Patrick Cairo, executive vice president of Suez’s North American operations

tion has championed across the world.¹⁴

The hype began to fade as early as 2003, when *Global Water Intelligence* reported that “after suffering severe indigestion last year, the big groups are now losing weight rather than gaining it.”¹⁵ Ironically, the publication said that free market conditions – on which the multinationals banked their success – may have contributed to the downfall: “In the heat of competition, prudent contingency planning was discarded.”¹⁶

This certainly helps explain RWE’s troubles. After purchasing American Water, the company set an ambitious goal of an 8 percent return on capital investment. In explaining the company’s struggle to achieve this, a company executive acknowledged, “We never said that it is an easy target.”¹⁷

Clearly, governments are in a much better position than corporations to adapt to contingencies and emergencies. They have no stockholders to appease, they are not subject to the whims of Wall Street, and they can go into debt more easily. A crisis can force a city to borrow more money and raise taxes, but it almost certainly won’t drive it into bankruptcy. Plus, a corporation can abandon a municipality, but a municipality can’t cut-and-run on itself.

So overall, how are things looking for the water privatization industry? Not that great. The latest annual assessment by *Public Works Financing*, a leading industry monitor, should give pause to any mayor or city council member considering selling or contracting-out their water systems:

- The corporate share of the operation-and-maintenance market is shrinking. “That’s partly due to the unwillingness of large cities to delegate...to private firms under long-term service contracts.” It’s gotten so bad that corporations are focusing less on market share and spending less on marketing, and instead are simply trying to expand existing contracts with small-

and medium-sized cities.

- Major corporations signed fewer long-term privatization contracts in 2005 than 2004. And the value of all contracts signed in 2005 dropped by 10 percent from the previous year. Market leaders Veolia and Suez reported gains of just 2 percent in contract revenues. American Water reported signing no operation-and-maintenance contracts of any significance in 2005.
- “Strong opposition from consulting engineers and public officials’ concerns about long-term contracts” have slowed the development of certain design-build-operate projects.
- Of eight major companies surveyed,¹⁸ the total gallons-per-day they handled in 2005 grew just 2 percent over 2004.¹⁹

Ultimately, elected officials looking for long-term solutions to funding challenges must ask themselves this question: What is more pragmatic? Putting their faith in private corporations, that despite their poor track record, assert they can operate facilities (which they didn’t design) cheaper and more efficiently, while still earning enough money to allow for profits and taxes? Or increasing public funding for a system that is already working?

In Water We Trust?

There’s a National Botanic Garden Trust Fund, an Architect of the Capitol Trust Fund, and a South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

So while dedicated funding sources ensure that the Butterfly Weed and Texas Prickly Pear are blooming, the frescoes inside the Capitol Rotunda remain presentable for tourists, and a seven-inch-long wading bird called the piping plover has a place to roost, the federal government has yet to establish a trust fund to protect something all people need to survive: water.

The federal government actually maintains about 110 trust funds. These include Social Security, Medicare and Superfund, of course, but there are also trust funds for highways, bridges, airports, mass transit, ports and harbors.

In the past, what has been the government’s rationale for establishing trust funds? Essentially, it’s been to address a national priority. Clearly, taking care of the sick and elderly, cleaning up toxic waste dumps, and building safe infrastructure projects – many of which cross city, county and state lines – are national needs that require national solutions. It simply wouldn’t make sense for each of the nation’s

3,000-plus counties to collect its own Social Security taxes and mail out checks to its own seniors.

It would be tough to argue that water is less worthy than roads, bridges and subways – or flowers, paintings and birds. And it would be just as tough to argue that safe and affordable water – which also crosses city, county and state lines – isn't a national priority.

Congress said so when it passed the Clean Water Act in 1972: “It is the national policy that Federal financial assistance be provided to construct publicly owned treatment work.” Similar language appears in the 1996 amendments to the Safe Drinking Water Act, originally passed two years after the Clean Water Act: “The Federal Government needs to provide assistance to communities to help the communities meet Federal drinking water requirements.”

Congress actually goes beyond saying that clean, safe water is a national priority – it extends the mandate to funding projects to keep water clean and safe.

Why, then, hasn't Congress created a trust fund to make sure that water is safe to drink and sewage is adequately treated before it is dumped into rivers and streams?

Many organizations have called for one, including those in the best position to understand that local governments can't afford to do the work on their own. Among them is the Water Infrastructure Network (WIN), which includes the National Association of Counties, National Association of Clean Water Agencies, National Association of Regional

Councils, National League of Cities, environmental, and consumer groups, and many other government and industry groups.²⁰

According to WIN, “Clean and safe water is no less a national priority than are national defense, an adequate system of interstate highways, or a safe and efficient aviation system.” Furthermore, “these latter infrastructure programs enjoy sustainable, long-term federal grant programs; under current policy, water and wastewater infrastructure do not.”²¹

The American people want one, too. In a national poll taken last year, 86 percent said they support the creation of a water infrastructure trust fund. Respondents went far beyond answering a simple “yes” or “no” question. Asked which projects most deserve a trust fund, 71 percent said safe and clean water, while just 20 percent said roads and highways (which receive \$39 billion a year) and 3 percent said airports and aviation (which receive \$11 billion).

By a 3-to-1 margin, respondents said water funding is ultimately a federal, not a local, problem – with 88 percent agreeing with the statement, “Clean water has no local boundaries.” And by a 6-to-1 spread, people said they'd rather see spending increased for water projects than entitlement programs.²²

Frank Luntz, who conducted the survey, told a House subcommittee last year, “It's hard for me to believe, but I have been a professional pollster for almost 20 years and I can tell you from personal experience that such an overwhelming consensus about the role of Washington doesn't happen often – but it exists here.”²³



“The Federal Government needs to provide assistance to communities to help the communities meet Federal drinking water requirements.”
- Safe Drinking Water Act

Down To A Trickle

A trust fund probably wouldn't be needed if the federal government had been fulfilling the promise of the Clean Water and Safe Drinking Water Acts. Wastewater funding was strong at first – at least \$5 billion a year for the first several years after the Clean Water Act became law. The \$41 billion invested through 1984, in fact, represented the largest non-military public works program since the Interstate Highway System.²⁴

President Reagan, however, tried to phase out wastewater construction funding in the mid-1980s, a disaster averted in 1987 when Congress amended the Clean Water Act to include the State Revolving Fund (SRF) program. This seed money, used to help states extend loans to communities, averaged about \$1.6 billion a year throughout the 1990s.

President Bush has picked up where Reagan left off. With Clean Water SRF funding at \$1.35 billion in 2000, Bush has since slashed it to \$887 million for the current fiscal year. Bush proposed just \$688 million for 2007, moving a big step closer to essentially eliminating funding by 2011. (The \$200 million cut looks even bigger considering it represents fully two-thirds of the cuts Bush has proposed for the EPA's entire \$7.6 billion budget.) Congress has been able to make up for some of Bush's proposed cuts in recent years, but leaders are doubtful they can accomplish this for 2007.²⁵

Meanwhile, Drinking Water SRF funding has remained

stagnant during the Bush years, at around \$840 million a year, despite new demands on communities to upgrade standards for arsenic and many other contaminants. New arsenic rules kick in this year.

The Bush administration has also stymied recent congressional efforts to modestly increase funding for the SRFs – ranging from \$20 billion to \$41 billion over five years. Bush claims such spending does not support his priorities of defense and homeland security.²⁶ Efforts to formally reauthorize the SRFs have also failed; the Clean Water and Drinking Water funds have not been reauthorized since 1994 and 2003, respectively.

The Congressional Research Service prognosticated grimly, "In such a fiscal environment, proponents of greater federal involvement in water infrastructure face enormous challenges to make the case for large expenditures to policy-makers."²⁷

Cutting the EPA's infrastructure budget – or in the case of the Clean Water SRF, eliminating it – would turn history on its head. From 1991 to 2000, 57 percent of all federal assistance for drinking water and wastewater projects came from the EPA – \$25 billion of \$44 billion.²⁸

And it would allow the federal government to get away with reducing its meager commitment to fund water systems. Given that it is statutorily bound to help pay for drinking water and wastewater projects, the government is getting

Where The Money Comes From

There are four main sources of financing that the federal government provides to local utilities.

- **The Clean Water State Revolving Fund (SRF)** grew out of the Clean Water Act of 1972, which created new national standards for wastewater treatment. A grant program was written into the law to help public utilities comply with the new regulations. Today, the Clean Water SRF provides seed money for state-administered loans to municipalities to build sewage treatment plants and improve water quality.
- **The Drinking Water State Revolving Fund (SRF)** is similarly designed to provide federal funding to communities to help them comply with standards established by the Safe Drinking Water Act of 1974. An important difference between this and the Clean Water SRF is that both privately owned and publicly owned systems are eligible for funding.
- In addition to these two programs, Congress appropriates money each year for individual Water Infrastructure Projects through **earmarks in Appropriations for the Environmental Protection Agency (EPA)**.
- Finally, Congress appropriates funds each year to the **USDA** for rural water and waste disposal grant and loan programs.

off easy. Ratepayers pay about 90 percent of infrastructure costs, and they are facing rate increases averaging 6 percent above inflation.²⁹ In households with tight budgets, such as people on fixed incomes and retirees, these increases can make a significant dent in available income. In some cities, cutting households off from their essential water services is not an uncommon sight.

The federal assistance, however paltry it may be, does go a long way. Without increased federal funding, water and wastewater rates will rise an estimated 123 percent over the next 20 years. Even if the government makes up just half of the infrastructure funding gap, this jolt to ratepayers would be reduced by a fifth. The government's 10 percent contribution is also likely saving many small-town, bare-bones operations from financial ruin.

Indeed, it is the funding gap that is fueling virtually all aspects of the debate over not only who should financially support, but also who should own, the nation's water systems.

All stakeholders – government, industry and public interest – cite the EPA's projection that for the 20-year period from 2001 to 2019, up to \$446 billion is needed for drinking water infrastructure, and up to \$450 billion for wastewater projects. And they reference the EPA's estimated funding gap of up to \$267 billion for drinking water and \$177 billion for wastewater. Sounds terrible.

Obviously, the private water industry has a strong interest in tossing around the EPA's doomsday predictions. The less public money there is, the easier it is for corporations to persuade communities to privatize their systems, and Congress to expand tax-exempt funding through private activity bonds (PABs).³⁰

Who Comes First?

One person who has spent a considerable amount of time and energy spreading news of the worst-case scenario while urging more private involvement in public water is David G. Wallace, mayor of the Houston suburb of Sugar Land.

As co-chair of the Conference of Mayors' Urban Water Council (UWC), Wallace marshaled through a 2004 resolution calling on Congress to lift restrictions on private companies' access to PABs, including removing the state volume cap, which appropriately limits corporate access to tax-free financing.³¹

"The state volume cap," he said, "has effectively limited the amount of PABs used for water facilities."³²



Indeed, according to a 2005 survey by the UWC, only 0.8 percent of cities surveyed said they have used PABs as a funding source. More than a third of the cities – 38 percent – have used SRF funds.³³

Despite these findings, Wallace told a House subcommittee in 2004 that it should focus less SRF funding, and instead should loosen tax rules and other regulations to allow corporations to play a larger role in public water provision.³⁴ In keeping with this position, the Conference of Mayors the following year issued a resolution requesting that the Drinking Water SRF be funded at the exactly same level as proposed by the Bush administration – \$850 million. The resolution called for the Clean Water SRF to be funded at \$1.35 billion, higher than what Bush requested for FY 2006 but no higher than the 2000 level.³⁵ These funding levels are far beneath what these communities need.

And why should corporations get tax breaks when profiting from privatized water? The UWC has a Water Development Advisory Board on which major water corporations - Amer-

In the Spotlight

Moving Mountains: Montara, California

If the citizens of Montara, CA, can build a tunnel through a mountain, why can't they run their own water system?

Ten years ago, this beachfront community 20 miles south of San Francisco voted with the rest of San Mateo County to block a freeway that would have carved a 225-foot gash through the Santa Cruz Mountains. Instead, residents said the problem of avalanche-prone Devil's Slide, where Highway 1 snakes precariously high above ocean-side cliffs, should be solved by building a tunnel through the mountains.

Measure T (that's right, for tunnel) passed by a 3-to-1 margin in November 1996, and Montara hasn't been the same since.

Neither has Scott Boyd. Participating in the tunnel campaign got Boyd hooked on local politics. "Measure T taught us how good it tastes to win." So when the next hot issue came along, he was ready to get involved – and in the perfect position. Boyd had become a member of the Montara water board and eventually took over as president.

Montara's water system, which it shares with neighboring Moss Beach (combined population 5,000), had been plagued for decades by shortages, equipment failure, unresponsive management and some of the highest rates in California. "The system was in complete run-into-the-ground condition. The maintenance budget was embarrassing," says Boyd, whose day job is designing computer networks. "We had to do something. That's the only thing I heard – over and over."

"The community had been moving in the direction of buying the system for many years," says Boyd. But when Citizens Utilities of Sacramento sold Montara's system to American Water Works in 1999, "that was the wakeup call."

(continued on page 11)

ican Water (RWE), OMI, United Water (Suez) and Veolia - have full memberships. It is hard to see how such advisors can be impartial to awarding themselves tax breaks.

Wallace's preference for increasing private rather than public funding is not all that surprising. He is a founding director of the Margaret Thatcher Foundation and has personal connections with the former British prime minister,³⁶ who privatized England's water system in 1989 (giving rise to Thames Water, which RWE purchased in 1999).

Wallace has ties with another prominent conservative – former House Majority Leader Tom DeLay, who plans to resign in June 2006 in the wake of his indictment on money laundering and conspiracy charges. Wallace landed the fellow Sugar Land resident to speak at an Urban Water Council meeting in March 2004. "Tell me what you need the federal government to do to assist you with this problem," DeLay said, "which may very well include telling us to get out of your way. Let us know what you need."³⁷

Wallace, who says he'll seek the Republican nomination

for DeLay's seat,³⁸ recently stepped down as co-chair of the Urban Water Council. The new chair is Albuquerque Mayor Martin J. Chavez, who has tangled with the issue of water in the past. In 2003, the New Mexico State Legislature and Gov. Bill Richardson took control of Albuquerque's water utility and transferred it to a new agency, a move Chavez strongly opposed. Chavez resigned as chair of the agency in a huff later that year. "I'm not allowed by statute to quit the whole thing," he said. "I'd quit if I could."³⁹

Whether Chavez will change the UWC's position or continue its support of privatization remains to be seen. Wallace's departure, however, gives the Conference of Mayors an opportunity to send a message to Congress and the American people about whether it favors solutions that place accountability in the hands of public or private interests.

With budgets at all levels of government running so close to the nub, the question must be asked: Is there enough extra money in the system to allow for corporate profits? After all, every dollar that goes to a stockholder is one less dollar that could go to fix leaky pipes or build a new treatment



Scott Boyd

(continued from page 10)

Community meetings were held at the local elementary school. A Web site went up. Volunteers chatted with residents in front of the post office. They walked door to door. People put Duchy of Grand Fenwick flags on their walls. A debate was scheduled for public access television but, Boyd said, it took them a while to find someone to speak against the buyout.

In relatively short order, the Montara water district put a question on the ballot: Should the district borrow \$19 million to buy the system from American Water's local subsidiary, Cal-Am? Measure V passed by a 4-1 spread, almost five years to the day after Measure T. The initiative raised taxes on homeowners about \$169 per year for every \$100,000 of assessed valuation.

When Montara residents made an offer to Cal-Am, Boyd says, "We were told to go pound sand." So the following May, the water district filed an eminent domain action, asking a local court to condemn the system so the district could purchase it.

Montara then achieved the improbable. The state Public Utilities Commission (PUC) ruled in December 2002 that RWE couldn't buy Cal-Am unless it sold Montara's system to the community. Why did the PUC side with Montara? "Because we pestered them," says Boyd. Montara took control of the system the following summer, and it's been in refurbishing mode ever since.

Boyd says new wells are being dug (in hopes of lifting a 30-year-old ban on new hookups), new storage facilities are in the works, filtration systems are being installed, every water meter will be replaced, and a new technique to remove sediment from Montara Creek is being used. "Unlike a private corporation, we don't have to pay taxes," he said. "We can afford these things.

"We don't have to show a profit. We get a bang for our buck by serving our citizens."

plant.

What happens before water and sewer bills reach the mailbox – that is, who pays and gets reimbursed for infrastructure – is one matter. "But in the end," says the Water Infrastructure Network, "whether financing comes from local governments or private firms, local citizens and businesses will have to pay the bills."⁴⁰ Because this is true, the interests of water customers – not water providers – should come first.

Conclusion: New Ways, New Thinking

Governments and corporations operate at cross-purposes. Government's prime directive is to serve its constituents. That of corporations is to serve their stockholders. This fundamental gap simply cannot be reconciled.

Corporations offer themselves as the solution for funding,

technical and organizational challenges faced by communities throughout the U.S., which face stricter standards, diminishing federal funding and a citizenry not keen to rate increases. But, as seen in this report, corporations have produced mixed results, at best, and elected officials and citizens alike are viewing privatization with increased skepticism.

Better alternatives are out there. Many cities have successfully reorganized their water and wastewater systems under continued local, public control. These reformed systems have saved money, rewarded employees and enhanced services while maintaining or improving water quality and protecting the environment. But instead of these additional savings getting drained from the community in the form of corporate profits, they are re-invested back into the community.

These are just a few of many success stories emerging across the country:

- Phoenix and AFSCME Local 2384 formed the Partici-



pative Association of Labor and Management in 1996 to enhance efficiency, assure quality and keep rates low. The five-year goal was to save \$60 million. Instead, it saved \$77 million.

- San Diego and two labor organizations created the “Bid to Goal” program in 1998. They rang up savings of \$37 million in the first two years, nearly doubling their goal.
- Amid growing scrutiny of its performance, Miami-Dade, with the help of AFSCME Local 121, established “POWER”– the Partnership Optimizing Water and Sewer’s Efficiency Reengineering Program. Operation and maintenance expenditures were reduced by \$52 million from 1997 and 2001.
- Working with four labor organizations, King County, WA, saved \$2.8 million in 2001, the first year of its “Productivity Initiative”– despite skyrocketing electricity costs. The Seattle-area program is shooting to save nearly \$70 million over 10 years.

Have a story to tell about water management in your community? Contact Food & Water Watch.

Public water and wastewater employees and managers have many great ideas to save money. Too often, though, the missing ingredients are employee incentives to promote innovation, and management flexibility to allow these innovations to blossom. And while the specifics will differ from city to city, the basic reengineering concepts of goals, standards and accountability create incentives, flexibility and an innovation-friendly environment.

Saving money, retaining local accountability and enhancing

“Water is life and infrastructure sustains it.”
- Benjamin Grumbles, EPA Assistant Administrator for Water

system performance aren’t the only benefits of reengineering. Programs can be implemented quickly and savings can be realized relatively quickly, sometimes within months. By comparison, competitive bidding processes are invariably plagued with delays, and can take years and cost millions while uncertainty paralyzes the public system and deflates employee morale. In the end, private operators often become more of a problem than a solution.

Ingenuity can find better ways to build treatment plants and replace leaky pipes. But these things require money.

A growing gap between public financing and the money needed to repair and replace deteriorating water infrastructure threatens the current and future delivery of clean, affordable drinking water, and effective wastewater treatment.

In order to enhance and sustain strong public water management, Congress must step up:

- State Revolving Fund allocations must be increased;
- A trust fund for drinking water and wastewater must be created;
- Conditions in federal funding that favor privatizing water resources must be dropped, in lieu of legislation to maintain a strong and reliable public sector;
- Water corporations should not obtain access to public funding through tax-exempt private activity bonds. Instead, these resources should be used to support strong public management of our water resources.

Congressional representatives must be persuaded to increase federal funding for our water infrastructure.

Few have said it better than Benjamin Grumbles, EPA’s Assistant Administrator for Water. Speaking at the U.S. Conference of Mayors’ Winter Meeting in Washington, DC, in January 2006, Grumbles said, “Water is life and infrastructure sustains it.”

Private Players

Veolia

Based in Paris, Veolia is the largest water and wastewater corporation in the world, with annual revenues of \$32 billion (including its energy services and public transportation operations). It's the parent of Veolia Water North America, which serves 14 million people in 37 US states, the Virgin Islands, New Brunswick and Ontario. In 2004, it sold a portion of its water and wastewater operations, known as USFilter, to Munich-based Siemens. Veolia was formerly called Vivendi.

Suez

Based in Paris, Suez is the second-largest water and wastewater corporation in the world, with annual revenues of \$53 billion (including its electricity, natural gas and energy services operations). It's the parent of United Water, which serves 12.5 million people in Delaware, Idaho, New Jersey, New York, Pennsylvania and Rhode Island. In February 2006, Suez merged with French government-controlled Gaz de France, the largest natural gas supplier in Europe.

RWE

Based in Essen, Germany, RWE is the third-largest water and wastewater corporation in the world, with annual revenues of \$53 billion (including its electricity, natural gas, garbage and recycling operations). It's the parent of American Water, the largest investor-owned water corporation in the U.S., and Thames Water in the U.K. As of this writing, RWE was in the process of selling both divisions. American Water serves 18 million people in 29 states, Puerto Rico and Canada.

Aqua America

Based in Bryn Mawr, PA, Aqua America is the largest publicly traded water- and wastewater corporation in the U.S., with \$496 million in annual revenues. It serves 2.5 million people in 13 Northeast, Midwest and Southern states. It has completed 175 acquisitions in the past 10 years, adding 865,000 new customers, most recently New York Water Service Corp. for \$51 million in May 2006. Aqua America was formerly called Philadelphia Suburban Corp.

OMI

Based in Englewood, CO, OMI is one of the largest water and wastewater corporations in the U.S., with \$180 million in annual revenues. OMI is owned by multinational consulting firm CH2M Hill. In 2006, it won contract extensions in Rio Rancho, NM, and Del Rio and Stephenville, TX.

Case Studies: Three To Forget

When Chaos Meets Corruption

Atlanta

By the time it was all over, it wasn't even front-page news.

Atlantans had to turn to page 2D on March 4, 2003, to read that their City Council ended its 20-year relationship with Suez subsidiary United Water 16 years early.⁴¹ This is not to say it wasn't big news. Maybe journalists were just tired of writing about it.

New Year's Day, 1999 marked the beginning of the largest

water privatization in U.S. history – a \$428 million deal that United Water promised would cut Atlanta's water costs in half. Everything would improve: repairs, maintenance, billing, customer service, emergency response – you name it. "Atlanta for us will be a reference worldwide," Suez's Chair Gérard Mestrallet said at the time, "a kind of showcase."⁴²

It was also Suez's coming-out party in the U.S. Eight months later Suez announced its purchase of United Water, the nation's second-largest water company, elevating its strategic alliance to an all-out merger.

Two years into the deal, the U.S. Conference of Mayors bestowed Atlanta and United Water with its Outstanding Achievement Award, remarking the deal “exemplifies the type of corporate citizenship that makes cities stronger and healthier.”⁴³

Clearly, the mayor’s organization spoke too soon.

Only 18 months later, in August 2002, the city was so fed up with United Water’s poor performance that it threatened to terminate the contract if the corporation didn’t turn things around within 90 days. Due in part to dramatic staff cuts, maintenance backlogs were “unacceptable,” repairs were delayed, and responses to emergencies were “consistently and habitually inadequate and potentially hazardous.” The city was losing millions of dollars because United Water wasn’t reading, installing and maintaining water meters frequently enough, nor was it collecting enough late bills.

The city accused United Water of submitting bills for work it didn’t do – even working on other contracts and trying to win new contracts while on Atlanta’s dime. And the company refused to release certain billing records.⁴⁴

Scandal broke two months later when former Mayor Bill Campbell, who had signed the original deal, announced he never signed documents authorizing \$80 million in extra payments United Water had requested.⁴⁵ Though the public knew Campbell was under investigation at the time, few knew what would follow.

After a lengthy probe, Campbell was charged in 2004 with multiple federal corruption charges, including accepting \$12,900 from United Water to pay for a trip to Paris with a female companion, and taking United’s \$6,900 campaign contribution at a time he was not eligible for re-election.⁴⁶ At Campbell’s trial in early 2006, it was suggested that

“It’s still the model. Just do everything completely opposite of what Atlanta did.”

*- privatization advocate
with the libertarian
Reason Foundation*

one of Campbell’s top aides may have forged the letters.⁴⁷ Campbell was convicted of tax evasion in March 2006, but acquitted of racketeering and bribery. He is currently awaiting sentencing. United Water was not charged.

It was not corruption, though, that doomed United Water, but the corporation’s performance. Only half of the expected savings were realized.⁴⁸ Fire hydrants were repaired at half the speed required. And a backlog of 14,000 work orders had amassed.⁴⁹ Still, a week after Atlanta officials announced plans to cancel the contract, a privatization advocate with the libertarian Reason Foundation said, “It’s still the model. Just do everything completely opposite of what Atlanta did.”⁵⁰ It is hard to see how that would be an argument for other cities to follow suit.

Three weeks after Atlanta rescinded the contract, which United Water called “amicable,” CEO Michael Chesser left the company after just 15 months on the job.⁵¹ Atlanta officials didn’t view the termination this way. The City Council rejected United Water’s proposal for a gag order forbidding Council members from discussing the final negotiations. “I am not going to bite my tongue,” said Council member Felicia Moore.⁵²

The Big Sleazy New Orleans

In a city where corruption is akin to business as usual, efforts to privatize both the water and sewer systems in New Orleans have been stung by bribery scandals.

The latest scheme was masterminded by a politically connected engineering executive, Gilbert Jackson, who was linked to a four-city corruption ring that also entangled the mayor of East Cleveland, who himself is serving a lengthy prison sentence in part because of a water privatization scandal (see “Corruption: Part 1”).



In January 2006, Jackson admitted he accepted \$19,500 from a lobbyist representing Severn Trent, a multi-billion-dollar British company vying to win a contract to operate New Orleans water and sewer system in the late 1990s.⁵³ At the time, Jackson’s company was advising the city’s Sewerage and Water Board on how to structure the privatization plan. He was sentenced to six years and ten months in prison following his conviction on nine federal corruption charges.⁵⁴ The federal probe also ensnared numerous public officials and business figures in East Cleveland, Cleveland and Houston.

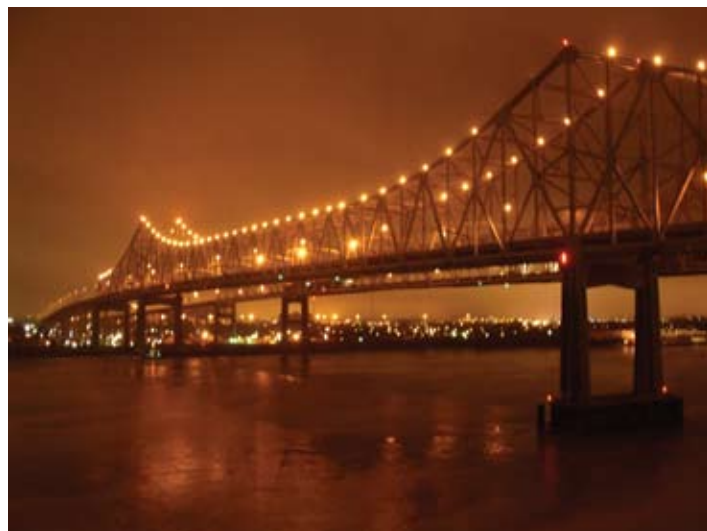
Not even the local media was shocked. “So now we learn that, even before the board was considering privatization, the process was corrupted to the point of illegality,” the *Times-Picayune* wrote. “Is anyone out there surprised?”⁵⁵

New Orleans dropped its privatization plans in 2004, after five years and \$5.7 million worth of study. The 20-year, \$1.5 billion contract would have been the largest ever awarded in the U.S. It fizzled after city residents and the state legislature overwhelmingly approved measures giving voters the power to approve or reject any privatization contract worth more than \$5 million.

Both Suez and Veolia cited the measures as reasons they withdrew their bids. “If we now have to run an election every time we want to get a job,” a Suez executive said, “it makes public-private partnerships cost-prohibitive.”⁵⁶

A few years before the water and sewer scheme was hatched, bribes began flowing to help another private company keep its contract to operate two of the city’s sewage treatment plants.

The president of Professional Services Group (PSG) (which was implicated but not charged in a corruption scandal in



Bridgeport, CT) was convicted and imprisoned for bribing a Sewerage and Water Board member in hopes of extending PSG’s contract in the mid-1990s. The board member was also convicted and jailed. PSG’s parent company, Aqua Alliance, pleaded guilty and paid a \$3 million fine.^{57,58} Veolia, which was not implicated, began investing in Aqua Alliance in 1990 and owned a majority share by 1997.

No doubt, recently reelected Mayor Ray Nagin’s comment after the water privatization plan was dropped rings as true today as it did two years ago: “I’m confident that this is a new day and we’re headed for a new direction.”⁵⁹

Not Politics as Usual Lexington

What very well might be the nation’s longest-running and nastiest water privatization battle may finally be decided, appropriately enough, on Election Day November 2006.

Just two days after RWE stockholders approved the company’s purchase of American Water Works in January 2002, editors of the *Lexington Herald-Leader* said “control and decision-making about water is best left to local leaders who can be held accountable,” perhaps not “a profit-driven global behemoth.”⁶⁰

Members of the Lexington-Fayette Urban County Council must have read the paper that day. Two days later, they held the first of dozens of meetings to discuss taking over RWE’s local subsidiary, Kentucky-American Water Co. To which the company’s president responded, “Our company is not for sale.”⁶¹ Funny thing is, it was just sold a week earlier, and it would be on the auction block again four years later.

“So now we learn that, even before the board was considering privatization, the process was corrupted to the point of illegality. Is anyone out there surprised?”

- New Orleans Times-Picayune



*“Lexington is a pawn in a great global water game.”
- Lexington Herald-Leader*

So if RWE wouldn't sell Kentucky-American to the community, Council members figured they'd have to take it by legal force. The day before the Fourth of July in 2003, city officials filed eminent domain papers with a local court, seeking to condemn and purchase RWE's water systems in eight Kentucky counties. "The filing of this petition on the eve of the anniversary of our Declaration of Independence...is the most beautiful parallel there could be," said a member of Bluegrass For Local Ownership of Water, or Bluegrass FLOW.⁶²

As it rarely if ever does, RWE didn't back down. The corporation sued the county two weeks later to stop the condemnation. The grounds? The Council didn't properly advertise the action, RWE alleged.⁶³

Then RWE hit Council members who supported the condemnation where it hurts most: the ballot box. Helping candidates who opposed the public buy back outspend opponents \$244,000 to \$149,000, RWE flipped a 9-6 minority into a 9-6 majority in the Council elections of November 2004.⁶⁴

A company-sponsored history book describes how it stymied Lexington's first attempt to buy Kentucky-American in 1960: "If the primary avenue of attack...is legal, the principal line of defense, and the obvious point of counterattack, is political."⁶⁵ The new RWE-friendly Council promptly

ended the condemnation effort, twice overriding vetoes by Mayor Teresa Isaac, who signed a letter with elected officials from California and Illinois urging RWE to sell its systems to communities.⁶⁶

A new coalition - Let Us Vote (LUV) Lexington - responded by collecting 26,000 signatures to get the issue qualified for a ballot referendum. The referendum was placed on the ballot for Nov. 8, 2005. RWE sued on another technicality, this time claiming that no regular election was scheduled that year, thus attempting to deny Lexington residents their right to vote.

After RWE was rebuffed by two lower courts, the state Supreme Court sided with the corporation and canceled the 2005 vote. Sensing perhaps that public opinion had turned against it, however, the corporation abruptly dropped the case on May 23, 2006, allowing the referendum to go on the November 2006 ballot. In an unusual gesture of resignation, Kentucky American's president said, "The best thing for all of us is to let our customers vote."⁶⁷ The corporation might think that it can outspend the residents, but absentee ballots already in by the time the state Supreme Court canceled the vote in 2005 went 22-77 against the continuation of corporate ownership in Lexington.

The corporation also seems to be losing momentum in the political realm. Of the 11 County Council candidates advancing in the May 2006 primary (whose position on condemnation is publicly known) only two oppose it. Incumbent Mayor Isaac, however, will face a strong contender who does not support local ownership.⁶⁸

The stakes are high as Lexington residents may finally get a chance to determine the destiny of their water system. Editors of the *Lexington Herald-Leader* remarked: "Lexington is a pawn in a great global water game."⁶⁹

Case Studies: The Worst Of The Rest

Deep Trouble Milwaukee

Is anybody winning with Suez running Milwaukee's sewer system?

Billions of gallons of raw and partially treated sewage have poured into Lake Michigan and local streams since United Water (owned by Suez) took over the system in 1998. Many of the spills were blamed on heavy rains, but others were the fault of employees and malfunctioning equipment.

In one incident alone, 1.5 billion gallons of raw sewage spilled in May 2004, marking the second-largest mishap since Milwaukee's "Deep Tunnel" system opened in 1993. City officials blamed the rain, but the accident led state legislators to call for an investigation.⁷⁰

The spill came one year after a city-appointed auditor raised questions about United Water's management, including whether the company cut staff too drastically (from 300 to 209) and whether it had a sufficient inventory of spare parts. A backlog of uncorrected problems had also accumulated – some dating back more than a year.⁷¹

This audit came one year after a state review found United Water likely violated its contract by shutting down pumps to cut costs – a practice that saved the company \$515,000, but which also caused the dumping of more than 100 million gallons of sewage.⁷² The city threatened to void its contract with United Water if "persistent and repeated failures" continued.⁷³

The contract has saved the city about \$1 million more per year than United Water promised,⁷⁴ but at what environmental costs? On top of public relations headaches, Suez acknowledges it has lost money on the deal⁷⁵ – a half-million dollars in energy costs in May 2005 alone.⁷⁶



Awash in Problems Indianapolis

The largest U.S. water privatization has become one of Veolia's biggest headaches.

In October 2005, four Veolia employees were subpoenaed by a federal grand jury as part of an investigation into allegations that water-quality reports were falsified. The probe began amid accusations by Indianapolis City-County Council members that Veolia's local subsidiary has cut back on employees, water testing, purification chemicals and maintenance. Some even allege the corporation has cooked its books in order to collect financial incentives.⁷⁷

The subpoenas represent the latest embarrassment for Veolia, which in 2002 signed a 20-year, \$1.1 billion contract to provide water service to more than 1 million people.

"We'll get through this but have a black eye."

- Veolia President Tim Hewitt

Since the deal was signed, non-union employees have seen their pension, health care and other benefits slashed;⁷⁸ local residents went to court (though unsuccessfully), claiming the contract violated state law;⁷⁹ more than a million people were put on a boil-water alert after an employee apparently entered the wrong number into a computer;^{80,81} and supply shortages forced customers to cut their water usage during peak hours.⁸²

Fed up, Council member Jim Bradford last summer called for a performance audit of the company.⁸³

The corporation has had to question its own performance, having sustained multi-million-dollar losses every year since the takeover. "We did lose money, more than we anticipated," Veolia President Tim Hewitt said. "We'll get through this but have a black eye."⁸⁴

Turning the Tide Lee, MA

One of the nation's most vigorous debates over water privatization occurred here, in the quiet western Massachusetts

marble town of Lee – the “Gateway to the Berkshires.”

After initially favoring the deal, town Representatives in September 2004 voted overwhelmingly against turning over its water and sewer system to Veolia – the only company to respond to the city’s advertisement for a private operator. Veolia said it could save the city \$6 million over 20 years, but residents grew uneasy with the arrangement when they read the fine print. Made public only days before the vote, the contract gave Veolia the right to set rates to treat trucked-in waste from outside Lee, allowed the town only limited access to documents, and lacked a credible cost estimate against which promised savings could be measured.⁸⁵

“They may tell you that you’ll save money, but you won’t. I think we should do this ourselves.”

- Lee city employee



The Berkshire Eagle published letters to the editor by the score. Opponents packed special town meetings held at the local high school. And the city’s public works staff staged a protest in front of City Hall. “They may tell you that you’ll save money, but you won’t,” one town employee said. “I think we should do this ourselves.”⁸⁶

Not only did Veolia lose the contract, but one of its corporate vice presidents – who announced prematurely three weeks before the vote, “Yeah, we wrapped it up”⁸⁷ – lost his position as town moderator. A leader of the privatization effort, he was defeated the following spring.

What Price Privatization? Stockton, CA

Stockton’s privatization effort has been a very costly one. The city has spent an estimated \$3 million defending itself against lawsuits challenging the deal. Rates have gone up. And it will likely take years for citizens to regain trust in their government. The whole debacle was featured in a 2004 film, *Thirst*, which was broadcast on PBS.

This Central Valley community burst into the national spotlight in February 2003 when the City Council voted to pay a partnership of Thames⁸⁸ and OMI \$600 million to operate its water and sewer system for 20 years. Industry experts said it was the biggest such contract ever signed in the western U.S.

City leaders barely beat their constituents to the punch. Just two weeks later, voters approved Measure F, which blocks any utility privatization deal worth more than \$5 million. Subsequently citizens sought a referendum to rescind the contract but came up 800 signatures short, in part because of counter-petitions circulated by the opposition, which urged people to remove their names from the original petition.⁸⁹

A San Joaquin County judge threw out the Thames/OMI contract in December 2003, agreeing with public interest groups that argued the city violated state law by not conducting a full review. He later overturned his own ruling and the case remains snarled in court.

Hopes by Stockton Mayor Gary Podesto to parlay his apparent victory into a move up the political ladder failed when he lost a run for the state Senate in 2004, in what reportedly at the time was the most expensive state legislative race in U.S. history – \$10 million.

Meanwhile, the local group Concerned Citizens Coalition of Stockton has reported that rates have risen, customer service requirements have been unfulfilled, the amount of

unaccounted-for water has tripled, and maintenance tasks are backlogged.⁹⁰

Back to Ground Zero Laredo, Texas

When this border town turned over its water system to Suez’s United Water division in 2002, it hoped to save enough money to dig a well to supplement the drinking water it pumps from the polluted, over-tapped Rio Grande.

Suez didn’t deliver on its promises, and halfway through its 5-year, \$47 million contract with the city, the corporation was run out of town.

Suez, as well as Colorado-based OMI, had lobbied the city intensely for years until it hired a consultant in 2001 to study water privatization. The consultant said Suez could deliver annual savings of \$4.2 million, but its first year on the job yielded only about \$950,000.⁹¹

Blaming its underachievement on the city’s aging infrastructure, Suez asked the city for \$5 million for unexpected expenses plus an additional \$3 million per year. City officials refused, saying the company knew what it was getting itself into and calling the corporation’s claims “bogus.”^{92,93}

The city also rejected Suez’s offer of \$500,000 to sever the contract. The sides finally reached an agreement in March 2005, with Suez paying the city \$3 million and turning over some of its equipment.⁹⁴

City officials say they’ve learned a lesson. “They tried to do what they could do, but at the end of the day it wasn’t going to work,” Councilman Jose Valdez, Jr. said of Suez. “I’m just glad to see them go.”⁹⁵

“I’m just glad to see them go.”
- Laredo Councilman Jose Valdez Jr.

Double Failure Puerto Rico

During the past decade, not one but two of the world’s largest water corporations have tried to demonstrate that Puerto Rico and its 3.9 million citizens are better served by the private sector. Both attempts failed.



First, Veolia (then as Vivendi) took over the island’s water and wastewater system, PRASA, in 1995. The experiment ended in 2001, when the corporation was forced to leave after racking up \$6.2 million in fines, more than 3,000 operational, maintenance and administrative deficiencies and \$695 million in losses.⁹⁶

Suez stepped in a year later and announced a “historic” 10-year, \$4 billion deal in May 2002.⁹⁷ This arrangement was even shorter-lived. After 18 months on the job, Suez demanded an extra \$93 million from the government, alleging it was given false information about the size of the water system.⁹⁸

Local officials disagreed and accused the corporation of poor performance. “Basic services such as providing drinking water, better sewers and better infrastructure have not improved,” Puerto Rico’s ombudsman said.⁹⁹ PRASA balked at paying the \$93 million, cancelled the contract and regained full control of the system in June 2004.

Though it lasted less than a decade, Puerto Rico’s dalliance with privatization came at a staggering cost – social, political and financial. Service interruptions, poor water quality and other problems went largely unsolved, and PRASA now faces an operational deficit of \$1.2 billion – much of which could be passed on to citizens.¹⁰⁰

Corruption: Part I East Cleveland, Ohio

How the mayor of this Cleveland suburb became entangled in a nationwide corruption scandal is among the most bi-

zarre tales in the annals of water privatization.

At age 22, Emmanuel Onunwor left Nigeria in hopes of finding a fresh start in the United States. Fifteen years later, in 1997, he became the first African-born mayor in U.S. history. His improbable success story ended in disgrace in September 2005, when Onunwor was sentenced to nine years in federal prison after being convicted of receiving bribes, kickbacks and secret payoffs.

CH2M Hill, received a 3-year, \$3.9 million contract to run the city's water and sewer system in 2002. OMI, then a subsidiary of CH2M Hill, handled the contract. But instead of going through a bidding process, federal prosecutors say the company won the contract by bribing Onunwor through a series of intermediaries – including a front company that worked for CH2M Hill.¹⁰¹ The ringleader (who did not work for CH2M Hill) was later convicted on 36 federal charges related to bribing officials in East Cleveland, Cleveland, Houston and New Orleans¹⁰² (see “The Big Sleazy”).

The OMI contract was doomed even before Onunwor's fall. In March 2004, the corporation said it was pulling out because the city – which had been in a state of fiscal emergency since 1988 – owed it \$5.1 million. City officials criticized OMI for giving them little warning and presenting flawed financial projections.¹⁰³

Corruption: Part II Rockland, MA

If it could go wrong in Rockland, chances are it did.

In 1998, Veolia signed a 10-year, \$12 million deal to operate the sewage plant in this small town just southeast of Boston. Six years later, Rockland cancelled the contract after state officials found the agreement may have been illegal because it was specifically tailored to Veolia and excluded other bidders.^{104,105}

“It is sound public policy,” the state Inspector General's Office told the city, “to abandon a contract that you have determined is tainted by scandalous activity, poorly serves the financial interest of your community, and has given rise to an appearance of misfeasance in the use of public funds.”¹⁰⁶

But that was just the beginning. The same

“Our company does so many wonderful things.”

- Veolia spokesperson

city official and Veolia employee who worked together to tailor the contract for Veolia were convicted of stealing more than \$300,000 from the city by submitting phony invoices and intercepting reimbursement checks. The official was sentenced to 18 months in prison; the Veolia employee received five years' probation.^{107,108}

And there's more. A city auditor found that \$77,000 in questionable charges from the sewer plant was billed to the city, including parties, clothing, gift cards and Christmas trees.¹⁰⁹

In the end, the city and Veolia wound up suing each other in federal court – the city claiming Veolia owes it \$1.6 million, and the corporation alleging the contract was improperly cancelled. “The whole situation is really unfortunate,” a Veolia spokesperson said. “Our company does so many wonderful things.”¹¹⁰ The case has yet to go to trial.



Corruption: Part III Bridgeport, CT

By all accounts, being mayor of Bridgeport was merely Joseph Ganim's day job.

When he wasn't gaveling the City Council into session and attending ribbon-cuttings, Ganim was drumming up business – for himself and some of his closest friends.

In one of the most notorious corruption scandals in Connecticut history, Ganim was sentenced to nine years in prison in 2003 following his conviction on 16 federal charges, including racketeering. The five-term mayor schemed to collect more than \$1 million in bribes from Professional Services Group (PSG) to win and then extend by 18 years a contract to run the city's sewer system. Ganim split the money with his

chief fundraiser and his former campaign manager. Ganim was also convicted of receiving kickbacks, using city money to buy himself a life insurance policy, and filing false income tax returns.¹¹¹

PSG of Houston, which was since purchased by Veolia, was not charged in the affair. Two years before, however, PSG pleaded guilty to bribery charges in New Orleans (see “The Big Sleazy”).

Rush to Judgment

Guam

Despite the public sector’s making significant improvements and receiving praise from independent experts, and without the benefit of public input, Guam is charging ahead with a plan to privatize its water and sewer system.

The Consolidated Commission on Utilities voted in December 2005 to hire a private corporation to run the island territory’s sewer system, and approved a plan to pursue a similar measure for its water system. Only after the vote were citizens permitted to speak.¹¹²

Though admittedly troubled by failing equipment and a lack of expertise, Guam’s water system is on the rebound.

“Historically in the United States, the public has demanded their water and wastewater service, so critical to life and preservation of the environment, be entrusted to public management and operation.”

- American Water Works Association, Water Environment Federation



In December 2004, the island met a U.S. Environmental Protection Agency deadline to implement a plan to install chlorinators in all of its wells.¹¹³ And last year, two non-profit scientific organizations found the system had made numerous strides, including complying with the Safe Drinking Water Act, hiring more certified employees, operating more efficiently, and reducing cronyism and outside political interference.¹¹⁴

Further, the organizations – whose leadership includes industry representatives – offered words of caution about private involvement in water:

“[We] have seen mixed results from public/private partnerships on the mainland... [E]xtremely well written contract provisions must be developed and enforced. If not, privatizers will quote low initial prices and raise the rates significantly in later years of a long-term contract; after all, the primary motive of private enterprise is to deliver returns to its stakeholders.

“This is why historically in the United States, the public has demanded their water and wastewater service, so critical to life and preservation of the environment, be entrusted to public management and operation.”¹¹⁵

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