Exclusive Dispatch: Private Water Industry Says Water Bills "Have to Go Up"

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Morning sunlight spilled through long, narrow windowpanes inside the ballroom of the Francis Marion hotel, located in the heart of downtown Charleston, South Carolina, where dozens of public officials, company executives, attorneys and consultants had gathered to portend the future of the water industry in the Southeast United States. Beyond the region, their discussion was aimed at reimagining the future of the entire country's water infrastructure needs - including their hopes to move it into private hands.

I was the only member of the press present at the Southeast Water Infrastructure Summit, a gathering hosted by the National Association of Water Companies (NAWC), "the voice of the private water industry." Among its top sponsors were American Water, the nation's largest publicly traded water and wastewater utility company. The NAWC covered the lodging and $200 registration fee for all public officials in attendance, including state legislators and utilities regulators from across the United States.

The discussions of the day touched on several private water sector interests, including desalination and how to circumvent eminent domain law. But the topic that received the most attention was the nation's patchwork of rapidly deteriorating municipal water systems, which are estimated to need more than $1 trillion worth of upgrades. This, water executives said, not only represented a historic opportunity for their businesses, but could also be used as leverage to finally convince Americans to cough up more money for their tap water. It is the classic *Shock Doctrine* approach - turning a social crisis into a financial shakedown.

Using the Momentum of Crisis

There are nearly 170,000 public drinking water systems in the country, and they serve approximately 264 million people, according to the American Society of Civil Engineers (ASCE). They transport roughly 13 percent of the total water withdrawn from the United States' surface and subterranean caches to residential and commercial buildings. These systems are comprised of more than 1 million miles of water main pipes, many that are buried deep underground and over 100 years old.

The ASCE warns that these drinking water systems may soon begin to break down on a mass scale, and that replacing all of them would cost roughly $1 trillion. Data from the Environmental Protect Agency suggests the need for repairs varies widely from state to state.

The water industry is jockeying for more business at the federal level.

While less than a quarter of Americans get their water from privately managed systems today, businesses specializing in water, wastewater and sewage system maintenance are using the momentum of the crisis to acquire parts or all of municipalities' water systems, and business-friendly politicians are greasing the grab. Last year was one of the busiest yet for the private sector: Highlights include legislators in Pennsylvania and New Jersey making it easier for municipalities to hand off water systems to the private sector (in the latter case, without a public referendum), and in San Antonio, the seventh most populous city in the country, city leaders inked a deal to allow Abengoa Water USA3 and Bluewater Systems to operate the second-largest water main system in the city.

The water industry is also jockeying for more business at the federal level. During the summer of 2014, Congress passed the Water Infrastructure Finance and Innovation Act (WIFIA), which created a five-year pilot program for the federal government to provide $350 million in low-interest loans to cover up to 49 percent of large water, wastewater and water reuse projects. Congress also mandated that any projects receiving WIFIA funds could not also be financed with tax-exempt municipal bonds - a stipulation that the water industry, including the National Association of Water Companies, is lobbying hard to reverse.

Why Does the Industry Want Access to Tax-Exempt Municipal Bonds?

(Photo: Aaron Miguel Cantú)Ellen Dannin explained lucidly for Truthout:

The infrastructure privatization industry claims that tax-exempt bonds will "leverage" more investment by the private sector ... Government financing can involve loans that exempt a bondholder [water project builder] from paying any or all taxes on the income the bond throws off. That makes a tax-free bond worth more to the bondholder, because taxes that a bondholder does not have to pay can add to the income the bondholder earns from the bond. Put another way, tax exemptions allow the bondholder to pocket more money.

While the industry lobbies to amend the WIFIA, it may have caught a break with President Obama's fiscal year 2016 budget, which establishes a body called the Water Infrastructure and Resiliency Finance Center. Few details have been revealed, but the center's website indicates that it will "serve as a resource for communities, municipal utilities, and private entities as they seek to address water infrastructure needs with limited budgets," and will "support communities and explore creative and innovative financing practices, including public-private partnerships." The term "public-private partnership" is a euphemism for describing a range of privatization deals in which investors or companies pay a governmental entity to build or operate an asset in exchange for the right to collect revenue associated with the asset. The revenue can come in the form of fees or subsidies such as revenue tax breaks.

Additionally, the president's budget eliminates grants for states to invest in water quality research and loan guarantees for community water projects, continuing a decades-long trend of declining federal investment in water infrastructure - making states more likely to lean on private entities for these functions.

"Fighting the Perception That Anything Over $30 a Month Is a Lot"

It's in this infrastructural and political environment, with politicians cracking the door, but not yet punching it open for the private sector, that summit attendees in Charleston took the stage. Without steady government money for businesses to invest in restoring water systems, the consensus was that water across the nation needed to be more expensive for average households.

In a morning panel titled "The State of the Water Industry," Nick Rowe, a senior vice president of American Water, lamented that revenue collected by water utilities - mostly through the water bills of average people - was not enough to cover the industry's costs for updating infrastructure.

Rowe described an imbalance in cost and revenue flexibility. The solution, he went on to say, was to acclimate people to higher rates similar to those found in electric utilities.

"We need folks comfortable around revenue stabilization ... for some reason, in the water industry we are always lagging in utilities space."

John Hoy, president of Utilities Inc. of Florida, was more blunt.

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"What it comes down to is, how do we educate, and prep customers for understanding what the value of water is?" Hoy said. "There is the belief that water should be cheap. We are fighting the perception that anything over $30 a month is a lot. [Water] continues to be the lowest utility bill. We have to go up for that. We have to do more to change belief that we can keep water rates down for all the needs coming."

One way to get people used to paying more for water, Rowe later said in a response to a question from a regulator, was to use social media.

"At American Water, we are pushing on the social media front," he said in something of a non sequitur. "We want to be able to react to customer concerns [in real time]." Rowe also suggested that companies should use internships and plusher benefits - such as extended vacation time - to entice younger workers to a historically conservative industry.

A few hours later, in a panel about public-private partnerships on water infrastructure, Mark Strauss of American Water framed the financial needs of new water infrastructure through austerity politics.

"The chances that the federal government will step up with [trillions for infrastructure improvements], who knows," Strauss said. "We are $18 trillion dollars in debt."

Despite their consensus that water bills are too low, past reviews have found that water rates were already rising to pay for infrastructure. In 2014, the organization Circle of Blue recorded a 33 percent rate hike in 30 major cities since 2010, and the AARP described rates as increasing at a much faster pace than inflation. Though misleading, Strauss' invocation of national debt is revealing. Conjuring up the debt monster is how the water sector has hustled cities around the nation into selling off their water systems, often with poor results.

The Water Burden on the Poor

(Photo: Aaron Miguel Cantú)

A report from Food and Water Watch (FWW), a consumer advocacy group, claims that there were nearly five times as many prospective deals for privatizing water and sewage systems in 2010 as there were completed privatization deals each year during the previous two decades. FWW claims this shows a trend toward privatization since the Great Recession, but that may be comparing apples to oranges; FWW does not compare prospective deals in 2010 with prospective deals in previous years, and it's possible there were a sizable amount of deals in the past that fell through. However, the report does show a significant number of pending or completed privatization deals since 2008 clustered in the Rust Belt, which was hit hard by the recession.

American Water, the leading sponsor of the summit, has led the charge for privatization in this region. In another report, FFW reported that American Water bought 10 water and sewage systems in 2012, leading to water rate hikes in nine states. It goes on to provide anecdotes from communities that have experienced hikes. In Trenton, New Jersey, the American Water subsidiary New Jersey American Water agreed to buy the city's water system only if it could sell the city's water to surrounding suburban communities at steep rates, with ongoing rate increases. (The effort was rebuffed by a public referendum.) Another example FWW cites is Coatesville, Pennsylvania, where household water bills increased 300 percent in the 12 years since its water system was sold to Pennsylvania American Water. At the same time, Coatesville's median income - $35,115 - increased 15 percent over the 12 years since it sold its water system.

Conjuring up the debt monster is how the water sector has hustled cities around the nation into selling off their water systems.

Still, as rising rates across the country have shown, publicly owned water utilities are not themselves immune to higher costs. And the way municipalities price water utilities is inherently regressive: The price of the tap does not vary by household income, meaning rate hikes - whether induced by public or privately owned utilities - will always be most burdensome for the poorest households "because user fees command a greater percentage of their annual incomes," according to a report by the United States Conference of Mayors. (Interestingly, activists in Detroit are trying to introduce a water affordability program that would charge wealthier residents higher rates in order to cover water bills for lower-income households.)

Nevertheless, in the most comprehensive, non-industry funded study comparing the household rates of publicly and privately owned water systems in the United States, FWW found that private water rates were "anywhere from 13 percent to almost 50 percent more" expensive than public rates. This is not only because of the need to satisfy shareholders, the report concludes, but also because water companies must pay more in taxes on municipal bonds, property and income - costs from which publicly owned utilities are exempt. The private sector passes these costs on to consumers. Additionally, companies sometimes set rates based on the highest estimates of predicted water usage, not actual use, as the French corporation Veolia did in Indianapolis.

"They Just Have to Pay"

The water infrastructure crisis has not only stimulated interest from the private sector; it has also sparked what Corporate Accountability International calls a global "remunicipalization" trend - returning previously privatized systems to local hands, as has happened most prominently in Atlanta and Indianapolis.

It's something attendees at the summit in Charleston feared.

"There's a new movement out there gaining steam that's fighting privatization," said John Hoy of Utilities Inc. "That anything our sector does is bad, that it should be *providing* water. We are gearing up and are ready to get the real message across." Later, Mark Strauss of American Water referenced the industry-funded website TruthFromTheTap.com, which calls itself "a fact checking website which holds activist groups accountable for the misleading claims they make about the private water industry."

Representing the public sector at the summit were regulators from utilities commissions in seven different states. However, if their panel at the end of the day is any indication, they don't think too highly of the public. On stage were commissioners from Illinois, South Carolina, North Carolina and Tennessee. They have the final say in setting the rates of publicly and privately owned utilities, including water, and their attitude toward those rates seemed eerily similar to that of the private sector representatives.

"Customers want the lowest rates possible on the planet," said Kenneth Hill, commissioner of the Tennessee Regulatory Authority. "We live in a nanny state; we live in an environment where everyone needs to be a victim of some sort. Don't let them be a victim," he implored water executives, as the other regulators looked on agreeably. "Let them know, they're not buying a service from you; you're providing it. They just have to pay."