

## Food and Water Watch Report

# Water Privatization: Facts and Figures

Privatizing local water and sewer systems usually does far more harm than good for our communities.

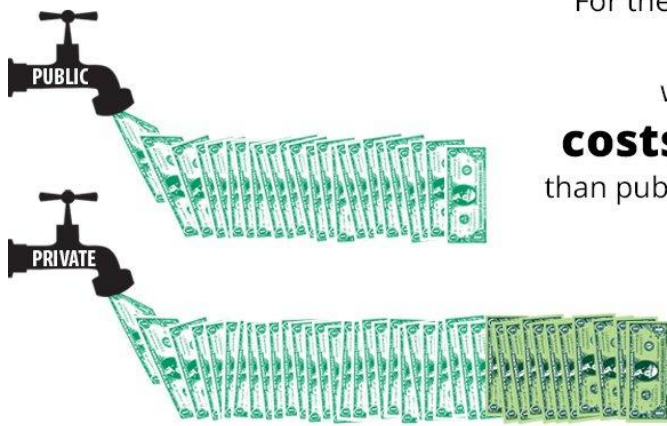
Water privatization – when private corporations buy or operate public water utilities – is often suggested as a solution to municipal budget problems and aging water systems. Unfortunately, this more often backfires, leaving communities with higher rates, worse service, job losses, and more.

### Problems with Water and Sewer Privatization

#### Loss of Control

- **Privatization is irresponsible.** By privatizing water and sewer systems, local government officials abdicate control over a vital public resource.
- **Privatization limits public accountability.** Multinational water corporations are primarily accountable to their stockholders, not to the people they serve.
  - **Loss of public input.** Because water service is a natural monopoly that lacks a true market, consumers can exercise choice only at the ballot box through the election of the public officials who oversee their utility. They don't have a vote in the corporate boardroom. With public ownership, residents can visit their elected officials and directly express their opinions about the operation of their water systems. If the officials fail to respond, the community can vote them out of office. The public lacks similar mechanisms to address their concerns with private utilities and appointed state regulators, and long-term complex contracts can tie the hands of local governments.
  - **Loss of transparency.** Private operators usually restrict public access to information and do not have the same level of openness as the public sector.
- **The objectives of a profit-extracting water company can conflict with the public interest.** Because a water corporation has different goals than a city does, it will make its decisions using a different set of criteria, often one that emphasizes profitability. This can create conflict.
  - **Cherry picking service areas.** Private water companies are unlikely to adopt the same criteria as municipalities when deciding where to extend services. They are prone to cherry-picking service areas to avoid serving low-income communities where low water use and frequent bill collection problems could hurt corporate profits.
  - **Contributing to sprawl.** Local governments can use the provision of water and sewer services to promote smart growth, while water companies often partner with private developers to supply service to sprawling suburbs.
  - **Undermining the human right to water.** As a result of price hikes, service disconnections, inadequate investment and other detrimental economic consequences, water privatization often interferes with the human right to water. Read the issue brief: [Water Equals Life: How Privatization Undermines the Human Right to Water](#)

## Rate Increases



For the typical household,  
privately owned  
water utility service  
**costs 59% more**  
than public water service —  
**about \$185**  
**each year.**

- **Investor owned utilities typically charge 59 percent more for water service than local government utilities.** Food & Water Watch [compiled the water rates of the 500 largest community water systems in the country](#) and found that private, for-profit companies charged households an average of \$501 a year for 60,000 gallons of water — \$185 more than what local governments charged for the same amount of water.
- **Investor owned utilities typically charge 63 percent more for sewer service than local government utilities.** Food & Water Watch compiled sewer rates survey data from dozens of states and found that private ownership increased sewer bills by 7 percent in West Virginia to 154 percent in Texas.
- **After privatization, water rates increase at about three times the rate of inflation, with an average increase of 18 percent every other year.** Food & Water Watch examined how water prices changed under private ownership following the 10 largest known sales of municipal water or sewer system to for-profit companies between 1990 and 2010. As of 2011, after an average of 11 years of private control, residential water rates had nearly tripled on average, increasing a typical household's annual bill by more than \$300.

## Higher Operating Costs

- **Private operation is not more efficient.** Empirical evidence indicates that there is no significant difference in efficiency between public and private water provision.
  - **Lack of competition.** In theory, competition would lead to cheaper contracts, but in practice, researchers have found that the water market is “rarely competitive.” The only competition that can exist is the competition for the contract, and there are only a few private water companies that bid to take over municipal water systems. Once a contract is awarded, the winning company enjoys a monopoly. A lack of competition can lead to excess profits and corruption in private operations.
- **Privatization often increases costs.** Corporate profits, dividends and income taxes can add 20 to 30 percent to operation and maintenance costs, and a lack of competition and poor negotiation skills can leave local governments with expensive contracts. Read the fact sheet: [Public-Private Partnerships: Issues and Difficulties with Private Water Service](#)
- **Public operation often saves money.** A review of 18 municipalities that ended their contracts with private companies found that public operation averaged 21 percent cheaper than private operation of water and sewer services. Read the fact sheet: [The Public Works: How the Remunicipalization of Water Services Saves Money](#)

## Other Costs

- **Privatization contracts can be expensive to implement.** The privatization process is complicated, expensive and time-consuming. In total, contract monitoring and administration, conversion of the workforce, unplanned work, and use of public equipment and facilities can increase the price of a contract by as much as 25 percent. Other hidden expenses, including change orders and cost overruns, can further inflate the price of private service.
- **Privatization can increase the cost of financing a water project by 50 percent to 150 percent.** Local governments usually use municipal bonds to finance water projects; these bonds have an average interest rate

of about 4 percent. Private water companies use a mix of equity and corporate debt with a weighted average cost that ranges from 7.5 percent to 14 percent or higher. So, in total, over 30 years, private financing is nearly 1.5 to 2.5 times as expensive as public financing, adding \$0.8 million to \$2.5 million onto the total cost of every \$1 million investment.

## Service Problems

- **Privatization can worsen service.** There is ample evidence that maintenance backlogs, wasted water, sewage spills and worse service often follow privatization. In fact, poor performance is the primary reason that local governments reverse the decision to privatize and resume public operation of previously contracted services.
- **Private operators may cut corners.** When private operators attempt to cut costs, practices they employ could result in worse service quality. They may use shoddy construction materials, delay needed maintenance or downsize the workforce, which impairs customer service and slows responses to emergencies.
- **Privatization typically leads to a loss of one in three water jobs.** A survey of 10 privatization contracts found that after taking over a system, water companies reduce the workforce by 34 percent on average. Other surveys have found similar results. With fewer employees to make repairs and respond to customer service requests, it is not surprising that service quality often suffers.
- **Privatization can allow systems to deteriorate.** Such neglect can hasten equipment breakdowns and allow water system assets to deteriorate. Because 70 to 80 percent of water and sewer assets are underground, a municipality cannot easily monitor a contractor's performance.

## What role should the private sector play?

From developing new technologies to providing construction crews for new treatment plants, the private sector plays an important role in protecting our water resources and finding innovative solutions to the water crisis. Although the public and private sectors work well together in many areas, businesses should not operate, manage or own public drinking water or wastewater systems. Those duties should fall under the purview of local governments, who have a responsibility to ensure safe and affordable service for all.

## Solutions: Improving our Water and Sewer Infrastructure

### Public-Public Partnerships

Instead of privatizing water systems, municipalities can partner together through public-public partnerships. Public partners are more responsive, reliable and cost-effective than private water companies. Intermunicipal cooperation, interlocal agreements and bulk purchasing consortiums can improve public services and reduce costs, while allowing communities to retain local control.

### Clean Water Trust Fund

We need to plan ahead and create a dedicated source of public funding that will help public utilities protect our country's valuable water resources. A national water trust fund can achieve this feat and ensure the safe and sound operation of our water and sewer systems. With a renewed federal commitment, our nation's good public operators can keep our water safe, clean and affordable.

[Take Action: Sign our petition to support the WATER Act and fund affordable, public water for all Americans](#)