

Sacramento Bee: Privatization wave washes into Stockton

By Stuart Leavenworth -- Bee Staff Writer
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STOCKTON -- They could have been home, watching the World Series. But on the night of Oct. 22, an overflow crowd packed the City Council chamber here, railing against Stockton's plan to let a British partnership run the city's water and sewage services.

"We shouldn't have to go to Europe to solve our water problems," resident Robert Veaco told the council.

"If this were really a good thing, you would shout it from the rooftops," said Bill Loyko, another Stockton resident.

Along with dozens of municipalities nationwide, Stockton is engaged in a tumultuous tug-of-war over its water future. The city faces a multimillion-dollar bill to upgrade its aging water systems, and private companies -- some based in London and Paris -- are offering to solve Stockton's problems and operate its plants at a bargain price.

Yet as more corporations seek to capitalize on the woes of cash-strapped cities, a backlash is brewing among consumer groups, unions and ordinary residents. Activists say public agencies are being hoodwinked by smooth-talking executives. Concerns over local control and global corporations are colliding from Southern California to the Big Easy.

In New Orleans, the city recently spent three years and \$4 million studying proposals to privatize its water and sewer systems. Following months of protests, the City Council in October rejected all three bids by water corporations.

In Los Angeles, the nation's largest urban water agency, the Metropolitan Water District of Southern California, also balked at a controversial venture. Last month, it scuttled a \$150 million deal with Cadiz Inc., which proposed to store and pump water to MWD from its land in the Mojave Desert.

In both cases, consumer and environmental groups launched boisterous crusades against the corporate suitors, arguing they can't be trusted with a fundamental public resource.

"The whole business model of these companies is to suck profits out of communities," said Juliette Beck of Public Citizen, a Ralph Nader group that has launched a nationwide campaign against private water ventures. "The agenda of globalization is very much at play."

Supporters of privatization say Public Citizen is engaged in brazen fear-mongering. The strategy, they say, is to kill public-private partnerships before they even get a chance to work.

"The whole thing is so shrill," said Debra Coy, a water analyst with Schwab Capital Markets in Washington D.C. "Issues of supply and infrastructure are huge in the water arena, but this endless fighting isn't helping."

Coy says cities nationwide have been hurt by cutbacks in federal grant programs and a failure to invest in infrastructure. Now, they are struggling to upgrade water treatment plants so they can meet new environmental rules.

"There needs to be a better allocation of resources and new investment," said Coy. "Typically, the private sector is a source of capital and because of -- God forbid, the profit motive -- they have incentives to be efficient."

Yet some cities are experiencing buyer's remorse. Atlanta, for instance, recently admonished its private water provider, United Water, for shoddy maintenance four years into a 20-year, \$21 million privatization deal.

"The rhetoric of private companies is that they bring new capital to the table. That is not the reality," said Jane Kelly, California director of Public Citizen. "They are mainly going after revenue streams."

Kelly and others note that the water industry is undergoing an unprecedented period of consolidation as it chases a market for water services that could top \$300 billion worldwide.

In 1998, French-based Vivendi, then the world's largest water services company, bought U.S. Filter, a water firm that has extensive landholdings and water rights in Southern California.

Vivendi's main competitor is Suez Lyonnaise des Eaux, which owns United Water and serves 115 million customers worldwide. Another big player is German-owned RWE, which is acquiring American Water Works, the largest publicly held utility in North America, with 16 million customers.

Coy says the European expansion isn't surprising, given that Europe has the most experience with privately run water systems. Still, she said, the industry's consolidation has triggered a nasty backlash.

"In New Jersey, there are people who have called up American Water Works and asked, 'How dare you allow the Nazis to take over our water?'" said Coy. "It is xenophobia at its worst."

In Stockton, the drama of globalization is playing out on an unlikely stage. Few Californians regard Stockton, the state's 12th largest city, as a bastion of capitalist innovation. But that was before voters elected Mayor Gary Podesto, a former supermarket owner and vocal champion of "public-private partnerships."

Five years ago, Podesto returned from the U.S. Conference of Mayors convinced that the private sector could help the city's water problems. In 1999, the city paid a \$100,000 fine for spilling chlorine into the San Joaquin River, its third in 13 years.

Podesto, a Stockton native, says people are right to worry about private ownership of raw water supplies. But water services are another matter, he says.

"The problem with Public Citizen is they lump all these things together," said Podesto. "They keep saying we are selling our water. We are not selling anything. We are not selling our equipment. We are not turning over anything to anybody."

Under Stockton's plan, the city would contract with a private company or partnership to run the city's water system, sewage plant and stormwater facilities.

The winning bidder would stand to make \$600 million over 20 years, one of the most lucrative water concessions in the state.

"A lot of cities around California are watching Stockton," said Dreda Gaines, a vice president for Thames Water, the largest water purveyor in Britain and a bidder for Stockton's contract.

Podesto said the city has been deliberating the possible transition openly since 1998, a claim that makes critics laugh.

Sylvia Kothe, chair of Concerned Citizens of Stockton, said Podesto has resisted open-records requests and prevented her group from seeing corporate proposals until last month, a week before the City Council selected a preferred bidder.

"The public has been totally shut out," said Kothe, whose coalition includes the League of Women Voters, employee unions and church groups.

Kothe also claims the city selected a consultant, Alternative Resources Inc., that nearly always recommends private companies over continued public operation of water plants.

Based on the consultant's recommendation, Stockton City Council members last month selected a partnership of Thames and OMI, a Colorado-based company, as their preferred bidders – giving the partnership an inside track for a contract.

According to ARI, the two companies could save the city \$154 million in operating and upgrade expenses over 20 years, a figure Concerned Citizens says is inflated.

Soon after the bidder, United Water, for shoddy misselection, some city officials were embarrassed to learn that federal agents had raided the Connecticut wastewater plants of OMI as part of a probe into testing procedures.

By all accounts, the next two weeks will be crucial for the privatization drive in Stockton. City leaders say they may make a decision on a contract as early as Tuesday, superseding a March ballot initiative that would allow voters to decide for themselves.

Some Stocktonians say they don't mind private companies running some city services, but not what comes out of their taps.

"We wouldn't have any objections if they were privatizing the golf course," said Diane Park, a Stockton resident. "But this is different. This is our water."

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