



The Big Greedy

A Background Check on the Corporations Vying to Take Over New Orleans' Water System

**A Report by Public Citizen's
Critical Mass Energy and Environment Program
Washington, D.C.**

August 2001

Fortune magazine recently called water “the oil of the 21st century.” With a deepening global water crisis already imperiling the lives of hundreds of millions of people, private companies are presenting themselves to government agencies as knights in shining armor who will save the day by purchasing rickety water systems, whip them back into shape, and ensure that the tap won’t run dry.

Riding into New Orleans are three corporations that, based on their checkered histories, have local citizens girding themselves for what is shaping up to be one of the dirtiest political battles in a city that practically patented government corruption. As more unseemly information about these companies has come to light, residents of New Orleans are starting to wonder who, if anybody, is looking out for their interests. The answer might be one they don’t want to hear:
Nobody.

In 2000, New Orleans became the latest city to step onto the treacherous path of water and wastewater privatization after a team of financial advisors concluded that only a private company would be capable of holding down costs and rates as the city embarked on a \$1.3 billion capital improvement program. The upgrades are expected to raise water rates 45 percent and wastewater rates 39 percent over a mere four-year period.

When city officials went out for bid on the project in February, they were met with fierce criticism from those who found flaws in the bidding documents, and also those who are wary

about privatization in general. Among the most vocal critics were the Bureau of Governmental Research, League of Women Voters, and employees of the city's Sewerage and Water Board (S&WB).

In retreat, the Board was forced to extend the deadline for citizens to submit comments on the proposal and to incorporate many of these concerns into the plan. Apparently missing from the final bidding documents, however, are several crucial changes that the Board itself voted to include.

The prime movers behind the privatization drive are Mayor Mark Morial and City Council President Eddie Sapir. After initially hoping to wrap things up by the end of 2001,¹ the timetable has been pushed back to March 2002.² This would coincide with the mayoral election, raising the ugly possibility that the decision to turn the city's water system over to a private corporation was somehow sullied by political pressure.

Unless someone or something puts a stop to it, the privatization would be the largest of its kind in U.S. history. The company that wins the contract will run the city's water and sewer systems for as long 20 years.

Before the ink dries, however, citizens of New Orleans still have the opportunity to become educated about the sort of company that will be receiving their monthly checks for years to come. By all appearances, it won't be a company run by people you'd be likely to have over for dinner. The wrap sheets of the three main companies vying to take over the city's water system are riddled with tales of bribery, lousy customer service, skyrocketing rates and broken promises of every imaginable variety.

OMI Inc.

Operations Management International, or OMI Inc., was created by an engineering firm CH2M Hill in 1980. OMI specializes in managing water and wastewater facilities, but its engineering base allows it to also offer design and construction services — a combination that proves especially popular among municipalities handing out so-called design-build-operate contracts, or DBOs.

With today's popularity of one-stop shopping in water, wastewater and other industries, OMI is perfectly positioned for expansion. OMI has operations in the U.S., Middle East and Asia. Although OMI is small in comparison to its two competitors vying for New Orleans' water systems, its record gives more than enough cause for concern.

- In Bergen County, New Jersey, OMI was embroiled in a scandal involving County Executive William "Pat" Schuber. The official was accused of trying to force the privatization of the county's wastewater treatment facility to pay back his campaign contributors. OMI, its attorneys at Amoroso & Beirman, and CH2M Hill gave thousands of dollars to Schuber and to the local Republican Party.³ This past June, the Bergen County Utility Authority voted 3-1 against privatization, with Vice Chair Joseph Tedeschi expressing concerns that OMI's emphasis on profits would compromise maintenance and increase the risk of spillage and line breaks. Schuber considered whether to veto the decision, but chose not to.⁴

- In May 2000, the City Council of Biddeford, Oregon, voted unanimously to withhold a payment for operations and capital expenditures from OMI until the company fixed an odor problem at the city's wastewater treatment plant. City officials took action in response to numerous complaints from residents and business owners, who were regularly confronted with the smell of raw sewage.⁵

- Daniel Wallace, former director of the sewage system that OMI managed for the city of Georgetown, Texas, was charged with using false invoices to buy more than \$200,000 worth of personal items with company money. City records also showed that Wallace set up a private company that procured a wastewater contract from the city. Even though the company denied that Wallace stole any city funds, OMI paid Georgetown more than \$100,000 “just in case.”⁶

- After OMI took over managing the water system of Clermont County, Ohio, residents saw their water turn brown for several weeks. Last August, county officials were forced to schedule a series of public meetings to address the problem. OMI executives explained that the color was caused by the flushing process it was using to purge the system.⁷

- OMI’s apparent fondness of flushing also stirred a controversy in Oak Ridge, Tennessee, where the company operates the water system for a nuclear site. The workers there alleged that contaminated water caused some of the plant’s employees to take ill. Richard Bird, a Boston physician whose specialty is occupational and environmental medicine, said polluted water sources may have been the cause of sicknesses. According to the workers, evidence suggested that water plant operators flushed the system before the water was sampled for possible contamination. The company denied the allegations.⁸

- In September 1999, an OMI-operated plant in Carol Stream, Illinois, dumped untreated and partially treated wastewater into Kline Creek for about 12 hours after a malfunction at the water reclamation center. The discharge lowered the levels of dissolved oxygen in the water, causing a fish kill.⁹

In bidding for the New Orleans contract, OMI will likely form a consortium with British Thames Water, now owned by RWE AG, a German energy giant. Thames Water, the largest water company in England and one of the largest in the world, has been a key player in the British water industry since the country privatized its water in 1989. Based on its record, Thames Water is more inclined to put the interests of its shareholders before those of its customers:

- The company raised its rates by 99 percent during the decade following the 1989 privatization.¹⁰

- In 1995, Thames Water cut its investment in infrastructure by £350 million (\$490 million). Instead of taking the savings and reducing customers’ rates — by about £10 per month per customer (about \$14) — the company used the money to boost its already high profits and dividends. This transfer of additional public money to the private sector took place after a 50 percent rate increase over the previous six years.¹¹

- From 1989 to 1998, company profits increased by 160 percent to £419 million (about \$603 million).¹² Thames Water’s profit margins in England were almost seven times higher than those of the global conglomerate, Vivendi Water internationally.¹³

- In 1999 alone, the British Environment Agency documented Thames Water’s involvement in 233 pollution incidents, resulting in eight prosecutions. Between 1989 and 1997, the company was prosecuted for environmental violations 31 times.¹⁴

United Water Resources

United Water Resources (UWR), formerly Hackensack Water Company, is a U.S. subsidiary of the French water giant Suez Lyonnaise des Eaux. Providing water and wastewater services to 7.5 million people in 17 states, UWR boasts that it holds five of the nation’s largest water/wastewater contracts.¹⁵

Before it was acquired by Suez, UWR's 1999 revenues totaled \$362 million with a profit of \$33 million — more than doubling its profits in seven years.¹⁶ In 1998, UWR's chief operating officer Donald Correll pulled in nearly \$900,000 in salary and other compensation.¹⁷ (The most recent data is unavailable because after it was acquired by Suez, UWR ceased being a publicly traded company and stopped reporting its financial data to the U.S. Securities and Exchange Commission.)

Throughout its tenure as the second-largest private provider of water and wastewater services in the U.S., UWR has maintained a less-than admirable corporate record. Here are some of the more telling examples of the company's poor citizenship:

- UWR's performance in Atlanta, where it secured a \$21.4 million water service contract in 1998, has been marred by complaints of poor customer service and inoperative fire hydrants. In 2000, some Atlantans started finding debris in their water, which also had begun to take on a brownish color. The company, however, did not initially acknowledge the problem.¹⁸ Four months later, many residents reported they were still experiencing the same problems.¹⁹ Even more complaints resulted from the company's failure to promptly repair broken fire hydrants, a problem that endangered the lives of residents. In response to residents' concerns, UWR executives said that testing fire hydrants after they were repaired was a city's obligation -- a claim that city officials rejected on the grounds that the company should ensure that hydrants are left working.²⁰ Moreover, residents filed numerous complaints about delays and slow service. In March 1999, for example, when the Breakwater Homeowners Association paid \$2,700 to have three meters installed, UWR told the association that the job would take 10 weeks. Six months later, the company installed the first meter.²¹

- In 2000, UWR executives from several states donated \$10,900 to Ralph Campbell's campaign to be elected North Carolina's state auditor — even though UWR has no subsidiaries in that state.²² Here's the connection: Ralph Campbell is a brother of Atlanta Mayor Bill Campbell.

- In 1997, UWR customers in the Florida counties of St. Johns, Duval and Nassau saw their rates increase by an average of \$9.44 per month, drawing no small amount of indignation. One local ratepayer, Richard H. Harlan Jr., was quoted in a Jacksonville newspaper as calling the company "the biggest bunch of highway robbers."²³ In 1998, the company requested yet another rate increase. The request was granted by Florida's Public Service Commission in 1999. The water rates increased by another 12.5 percent and the sewage rates rose more 5.4 percent. While reviewing the rate hike request, the state's Public Service Commission discovered that UWR overestimated its expenses by \$1.05 million.²⁴ Finally, to the relief of local residents, the Jacksonville Electric Authority in 2001 agreed to buy out UWR's properties. Under public operation, the average residential rates are expected to drop by 25 percent.²⁵

- In 1996, the city of Jersey City, N.J., hired UWR to operate and maintain its water system. Today, just five years later, city officials no longer express much enthusiasm about the UWR's performance. According to Kathleen Deely of the Municipal Utility Authority (MUA), the city has learned that the private operation is "no worse, no better."²⁶ A senior MUA official reports that a lack of financial transparency prevents the city from evaluating whether the UWR's fees are reasonable. The company isn't required to open its books for public review. Instead, it just sends a bill. Hard to believe as it may seem, the contract doesn't prevent UWR from overcharging its customers, because no review process is built into the deal.²⁷ Additionally, the company's customer service representatives often direct user complaints to the MUA, even in cases where the company is directly responsible for the problems — many of which should have

been prevented in the first place. Moreover, a combination of broken meters and underpaid meter-readers working for a subcontractor frequently causes erroneous billing.²⁸

The record of United Water Resources' parent company, Suez Lyonnaise des Eaux, also deserves close inspection. Suez Lyonnaise des Eaux, the major component of Suez Group, is the world's largest water service corporation. With 110 million customers around the globe and \$30.1 billion in revenues in 2000, this multinational behemoth possesses tremendous economic and political clout. And it has liberally used this clout to obtain contracts and expand its sphere of influence. In the last few years, Suez has been busy either acquiring or merging with water companies. With the purchase of UWR, it aggressively entered the U.S. market. In 2001, it took over Environmental Systems Co. (Ensco), a leading industrial hazardous waste treatment company. Suez's business practices, which border on the predatory, provide more than enough reasons for concern:

- In 2000, Limeira City, Brazil tried to reclaim its water system from Suez. In the first five years of the contract, Suez invested only 18 million Brazilian Real (BRL), far short of the 36 million BRL investment requirement specified in the contract.²⁹
- In 1996, government officials in Grenoble, France, and a senior executive of Lyonnaise des Eaux received prison sentences for bribery relating to a contract award.³⁰
- Typically, Suez contracts are secretive, as with most water companies. For example, its contract with a South African municipality states: "The documentation contained herein has been developed exclusively by the operator (WSSA) and shall not be disclosed to third parties without the written approval of the operator."³¹

U.S. Filter

U.S. Filter is a subsidiary of another French giant, Vivendi Environnement, which provides water and wastewater management services in some 100 countries via its Vivendi Water Division. Vivendi is part of Vivendi Universal, a conglomerate that also includes Universal Music Group, Universal Studios and telecom provider Cegetel. In 2000 Vivendi Environnement had revenues of EUR 26.5 billion (about \$24 billion) and profits of EUR 3.5 billion (about \$3.2 billion).³² U.S. Filter is four times larger than the nearest U.S. competitor.³³

New Orleans and its Sewerage and Water Board (S&WB) are already intimately acquainted with U.S. Filter, as the company operates the city's wastewater treatment system. Professional Services Group (PSG) signed the original contract in 1992 but was soon bought out by U.S. Filter, which, in turn, was acquired by Vivendi. Based on their track records, none of these three companies inspire much confidence in their ability to responsibly steward public resources.

- On July 26, 2001, an electrical fire interrupted for two and a half hours the operations of New Orleans' East Bank Sewage Treatment Plant, which serves 440,000 people and is operated by U.S. Filter.³⁴ Raw sewage backed up, covered surrounding property and made its way through some of the plant's offices. The plant's operators diverted the untreated raw sewage into the Mississippi River for two hours before the plant returned to operation.³⁵ City Councilmember Jim Singleton said S&WB officials told him that U.S. Filter was aware of the equipment problems for several weeks and knew they could cause serious damage, but took no action.³⁶ The fire came only a few months after two broken incinerators caused excess, untreated sewage sludge to be removed from the facility in trucks. Residents of the Arabi Park and Carolyn Park neighborhoods of St. Bernard Parish were exposed to the stench for more than two months.³⁷

- The dirt of the operation wasn't limited to how the sewage was handled. It extended to how the money was handled, too. This past June, former S&WB member Katherine Maraldo and three former PSG executives were indicted with giving a \$70,000 bribe to Maraldo, who in turn recommended that the city renew its wastewater treatment contract with PSG for five more years. The company was found to have falsified records to cover up the bribes. PSG's former president, vice president and a consultant (who was once the company's vice president) were also charged with, among other things, conspiracy and mail fraud — charges that could land them up to 50 years in prison. Aqua Alliance, PSG's parent company, agreed earlier to plead guilty to the charge of bribery and pay a \$3 million fine.³⁸

- PSG's wastewater treatment operation in Bridgeport, Connecticut, gave hundreds of thousands of dollars to an aide and an associate of Mayor Joseph P. Ganim in exchange for preferential treatment in city contracting.³⁹

- U.S. Filter shareholders took Vivendi to court over illegal payments the corporation allegedly made to U.S. Filter executives in exchange for their support of Vivendi's effort to acquire the company.⁴⁰

- Bribery mars Vivendi's international record, too. In 1997, Vivendi executives were convicted of bribing the mayor of St-Denis, France, to obtain a water concession.⁴¹ And the former mayor of Angouleme, France, admitted accepting \$55,000 from Générale des Eaux in exchange for awarding a contract to the company.⁴²

- A 1999 report on Vivendi's operations in Puerto Rico by the Office of the Comptroller criticized the company for deficiencies in maintenance, repair and operation of Puerto Rico's water and wastewater system. The comptroller charged the company with failing to provide running water in many areas, and with providing customers with bills but no water.⁴³ All the while, the water supply to U.S. military bases and tourist resorts was never interrupted.⁴⁴

Notes

- ¹ Grace, Stephanie. "S&WB urged to rethink its privatization process; Analyst says it isn't 'fair, easy and clear'." *The Times Picayune*, 15 June 2001
- ² Request for Qualifications/Request for Proposals for The Management, Operations & Maintenance of Water and Wastewater Systems. Sewerage & Water Board of New Orleans. Vol. I, Table 4-1. 15 Aug. 2001.
- ³ Johnson, Paul. "Democrats, unions point finger at Schuber. Claim favoritism over sewage facility privatization." *The Record*. (Bergen County, New Jersey), 8 May 2001.
- ⁴ Harrington, Shannon. "Bergen County Executive may veto utilities authority move to stop privatization talks." *Water Industry*, 23 June 2001. www.waterindustry.org/new_percent20projects/BCUA-OMI-6.htm.
- ⁵ Bouchard, Kelly. "Message is clear, even if the air isn't: No money. Biddeford won't pay the sewage treatment plant operator until the odor problems are solved." *Portland Press Herald*, 17 May 2000.
- ⁶ Nelsen, Carter. "Ex-director of sewage plants charged with theft. Company, Georgetown officials say no city money is involved; Wallace's son faces similar charges." *Austin American-Statesman*, 8 Feb. 2001.
- ⁷ "Clermont meets on water color." *The Cincinnati Post*, 24 Aug. 2000.
- ⁸ Munger, Frank. "Illness, tainted water link called possible. Unexposed workers also got sick." *The Knoxville News-Sentinel*, 15 Aug. 2000.
- ⁹ Linke, Denise. "Carol Stream pleased by Kline Creek test results." *Chicago Tribune*, 19 Jan. 2000.
- ¹⁰ OFWAT Memorandum 18 March 1998, in House of Commons Research paper 98/117, Dec. 1998.
- ¹¹ Lobina, Emanuele and David Hall. "U.K. Water Privatization – a briefing." *Public Service International Research Unit*, University of Greenwich, Feb. 2001.
- ¹² Company Annual Reports, in House of Commons Research paper 98/117 Dec. 1998.
- ¹³ Lobina, Emanuele and David Hall. "U.K. Water Privatization – a briefing." *Public Service International Research Unit*, University of Greenwich, Feb. 2000.
- ¹⁴ Ibid.
- ¹⁵ United Water website: <http://www.unitedwater.com/whoare.htm>.
- ¹⁶ 1999 U.S. Securities and Exchange Commission filings.
- ¹⁷ 1998 U.S. Securities and Exchange Commission filings.
- ¹⁸ Soto, Lucy. "Faucets spewing fears, confusion. Watered-down solutions: Virginia-Highland residents get lots of answers about problems with their drinking water. But which should they believe." *The Atlanta Constitution*, 1 May 2000.
- ¹⁹ "Work will start soon on intown water line." *The Atlanta Journal*, 4 Sept. 2000.
- ²⁰ Campbell, Colin. "Too many hydrants don't go with the flow." *The Atlanta Journal*, 30 March 2000.
- ²¹ Hardie, Ann. "City, firm up to their necks in complaints. Spotlight on a flood of excuses: Getting a problem with your water service solved has proven as difficult as figuring out who is to blame." *The Atlanta Journal*, 6 Sept. 2000.
- ²² Judd, Alan. "Campbell kin's N.C. campaign partly fueled by area money. Election: Contributors to state auditor's race include Atlanta's police chief and city attorney." *The Atlanta Constitution*, 25 Oct. 2000.
- ²³ Magee, Keri. "Utility's rate hike enrages residents." *The Florida Times-Union*, 10 May 1997.
- ²⁴ Chapin, Veronica. "Water bill mistake resolved. Agreement reached with United Water." *The Florida Times-Union*, 12 May 1999.
- ²⁵ Jacksonville Electric Authority. "JEA and United Water reach innovative agreement." JEA News. Available online: <http://www.jea.com/about/news/press/unitedwateragreement.asp>, 20 Aug. 2001.
- ²⁶ Deely, Kathleen, personal communication, 26 July 2001.
- ²⁷ Municipal Utility Authority, Jersey City, NJ, 14 Aug. 2001.
- ²⁸ Ibid.
- ²⁹ "Water Concession Jeopardizes other privatizations – RPT." *Brazilian Financial Wire*, 21 March 2000. Available at: www.westlaw.com.
- ³⁰ Allen-Mills, Tony. "Top mayor's fall shocks scandal-plagued France; Alain Garignon." *The Times of London*, 2 Apr 1995.
- ³¹ Agreement for Management, Operation and Maintenance of the Water and Sewage Systems of Fort Beaufort and Associated Customer Management, 5 Oct. 1995. Quoted in "Undermining Democracy and the Environment", Public Services International, University of Greenwich, March 2000.
- ³² Vivendi 2000 Annual Report.
- ³³ Company's website: <http://www.usfilter.com/water/CorporateInfo.asp?wid=277>.
- ³⁴ "Fire temporarily closes sewage plant." *The Times-Picayune* (New Orleans), 27 July 2001.
- ³⁵ Finch, Susan. "Untreated waste diverted to river." *The Times-Picayune* (New Orleans), 27 July 2001.
- ³⁶ Ibid.
- ³⁷ "Sewer plant blamed for Arabi odors. Broken incinerators to be repaired soon." *The Times-Picayune*, 30 May 2001.
- ³⁸ Grace, Stephanie. "Five face charges of cash for favors. Former legislator, S&WB official named." *The Times-Picayune*, 1 June 2001.
- ³⁹ "Guilty plea made in Bridgeport." *Engineering News-Record*, 9 July 2001. Available at: www.westlaw.com.
- ⁴⁰ Barrett, Amy. "Vivendi's shareholders gather as company faces U.S. suits." *The Wall Street Journal Europe*, 27 April 2000.
- ⁴¹ Hall, David. "Privatization, Multinationals, and Corruption." *Public Services International Research Unit*, University of Greenwich, Jan. 1999.
- ⁴² Ibid.

⁴³ Ruiz, Carmelo. "Rights-Puerto Rico: Thirsty for water and justice." *Inter Press Service*, 15 Sept. 1999. Available at: www.westlaw.com.

⁴⁴ Ruiz, Carmelo. "Puerto Rico: Residents protest unequal water distribution." *Inter Press Service*, 13 April 1999. Available at: www.westlaw.com.

For more information, contact
Public Citizen's
Water for All Campaign
(202) 546-4996
cmep@citizen.org
www.citizen.org/cmep/water