a report by

Public Citizen

Reclaiming Public Assets

From Private to Public Ownership of Waterworks

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WATER FOR ALL
CAMPAIGNING TO KEEP WATER AS A PUBLIC TRUST

Water for All Campaign
215 Pennsylvania Ave. S.E
Washington, D.C. 20003
tel: 202.546.4996
fax: 202.547.7392
cmep@citizen.org
www.wateractivist.org

Water for All Campaign, California
1615 Broadway 9th floor
Oakland, CA. 94612
tel: 510.663.0888
fax: 510.663.8569
california@citizen.org
www.citizen.org/california/water

Public Citizen

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Reclaiming Public Assets

From Private to Public Ownership of Waterworks

Nothing is more crucial to a community's well-being and very existence than a reliable and affordable water service. Lexington has an opportunity to join communities across the country that own and run their water systems. It is also an opportunity to join the growing number of communities that, through acquisition of private waterworks, have reclaimed control over their local water systems. Those communities have stabilized water rates, performed system upgrades more economically and restored accountability to the operation of their local waster systems. By purchasing the waterworks from Kentucky-American, citizens in the Lexington area can enjoy those same benefits while assuring long-term health and stability of one of the key determinants of a region's prosperity and quality of life—its water service.

Transformation of the Sleepy Industry

Water utilities have until recently been a sleepy industry – a safe investment that offered little excitement and modest profit margins. A number of generally small private utilities provided water service to communities they have historically served, while 85 percent of the population received their water from public utilities. The private water companies and their owners and managers were a part of the community they served, and were generally responsive to local needs and wishes.

However, in 1990s the landscape changed. Realizing that water can be transformed into a profitable enterprise, corporations actively began entering the water sector. Soon a handful of companies swallowed their smaller counterparts as a wave of mergers and acquisitions swept through the sector, making it hard at times to track down the current owner of a water system.

Soon, the customers of formerly small local water companies in Kentucky, Ohio, Illinois, California, and many other states across the United States realized that their waterworks were no longer owned and run by the neighbors down the street, but by corporations with headquarters in New Jersey, Pennsylvania, and even France. And the new owners were more concerned with providing shareholders fat profits than with giving communities reliable water service at reasonable rates.

French, British and German companies emerged as the leaders of the private water industry. France-based media conglomerate Vivendi, which also owns Universal Studios and Universal Music, increased its customer base to over 100 million when it acquired US Filter, the largest water services provider in the United States. Suez, another French company, purchased the U.S.-based United Water, paralleling Vivendi in revenues and market share.

A German energy giant, RWE AG, acquired British water leader Thames Water, which had just purchased E-Town, a New Jersey-based private water utility. Finally, in 2001 RWE announced that it was interested in acquiring American Water Works, the largest water utility in the U.S., serving over 10 million people in 27 states.

The consolidation in the water sector has been accompanied by a growing trend to privatize water systems.

Today, local governments are facing a host of challenges in providing water and wastewater services. An infrastructure that is, in some cases, a century old, is showing increasing signs of its advanced age, as main breaks, leaks, sewer overflows and raw discharges burden communities more and more frequently.

Meanwhile, federal and state regulatory agencies are tightening up water quality and effluent standards, making treatment of water and wastewater more expensive. For example, the new arsenic standard of 10 parts per million that reduces health risk will also require many communities to carry out costly upgrades of their treatment systems.

The cost of replacing aging infrastructure and upgrading treatment systems can be overwhelming. New Orleans will have to spend some $1.3 billion over the next 20 years on its water and wastewater infrastructure.[i] Atlanta, having paid over $23 million in fines for environmental violations over the last decade[ii] will have to spend at least $4.6 billion to revamp its sewer system.[iii] In both cities the rates will have to double, at the least, to finance the capital projects.

Private corporations claim they have the answer to these challenges – privatization. Privatization proponents argue that turning water systems to private companies would introduce efficiencies, and that the positive effects would permeate through the economy by way of stabilized rates, reduced public debt and improved budgetary management. The promises are very attractive to typically cash-strapped municipalities.

Time and again, however, privatization has failed to deliver on those promises.

Rates and Service

Selling or leasing waterworks effectively sanctions a private monopoly. These transfers generally lead to higher rates because the company depends on rates to make a profit. To maximize profit companies seek to minimize cost, which sometimes translates into poor service and less than adequate infrastructure maintenance (especially in the case of a lease agreement).

Accountability

A private utility may refuse to cooperate with the local government to address local concerns and to pursue development goals. When served by a public utility, water users can always hold public officials responsible for poor quality of water service and for failure to address their concerns. Having to stand for reelection is a powerful enough incentive for public officials to remain responsive to the residents' concerns. A private corporation, particularly one with a long-term contract that holds customers captive, is by contrast accountable primarily to its shareholders.

Economic Development

Nothing is more fundamental to a community's economic growth and development than adequate, reliable and affordable water and wastewater service. However, a private company may not desire to expand into a new area, or upgrade service in an area a city may have targeted for redevelopment, if its cost-benefit analysis fails to project sufficient profits from the investment. The company's refusal to expand may force the city to scuttle the development plans or build a separate plant to serve the area, which is generally more expensive than simply extending water lines from the existing plant nearby.

Conservation

A private company may refuse, directly or indirectly, to promote water conservation, despite the local, regional, and national objectives. Private companies in the water business do not grow profits and please shareholders by selling less, but by selling more.

A growing number of communities are now awakening to the disadvantages of private ownership of their waterworks. Several have moved to buy the private waterworks to reclaim control over rates, development, and quality of service.

A Case for a Buyout

For Lexington, the decision to pursue a buyout of the local waterworks, currently owned by Kentucky-American, a subsidiary of American Water Works Co., is one of local control, reliable service, affordable rates, economic development, and the city's quality of life.

The city rightfully expressed concern when American Water Works announced in 2001 that it agreed to be acquired by RWE AG, a German energy conglomerate that has recently purchased Thames Water, England's largest water company. Upon acquisition, American will be combined with the U.S. operations of Thames Water and American's CEO will report directly to the CEO of Thames Water. The transaction is subject to approval of regulatory commissions in many of the states where American operates.[iv]

Thames Water, has not had a stellar performance record. In 1995, Thames Water cut its investment in infrastructure by £350 million ($490 million). Instead of taking the savings and reducing customers' rates ¾ by about £10 per month per customer (about $14) ¾ 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.[v]

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.[vi]

Understandably, many residents of Lexington have determined that public ownership makes sense.

A municipal buyout of the waterworks would stabilize rates and guarantee reliable water service. It will prevent the water company from using Lexington's water revenues to finance its expansion in the U.S. or overseas, pay for bad business decisions and compensate the executives of American, Thames, and RWE. Municipal ownership of the system would ensure that Lexington's residents pay only the water system's operation and capital improvement costs.

Kentucky-American has argued that the city would have to significantly increase water rates to pay for the purchase. In reality, the city can finance the purchase by issuing revenue bonds, repaid with the rate-based revenue. The company's current rates include not only operation, maintenance, and capital improvement costs, but also a reasonable profit margin (generally 10-15 percent), executive compensation, and taxes – expenses absent in the case of a public provider. Capital made available through their elimination would help repay the debt incurred at the acquisition.

Unlike private debt, municipal bonds are tax-exempt, lowering the cost of borrowing to buy the waterworks and to perform capital improvements. Less expensive financing will translate into lower rates.

While the city can complete the purchase without rate increase, RWE AG may be unable to do so. The case history suggests that the company could raise rates to recoup its $7.6 billion investment in American.

Following are six case studies of communities that have either purchased waterworks from a private company or are currently pursuing a buyout. The case studies help understand underlying reasons for a buyout, outline the challenges the process involves, and assess the outcomes.

Indianapolis, Indiana

In 2000, the U.S. Securities and Exchange Commission required Merrillville, Indiana-based NiSource to sell Indianapolis Water Company (IWC) as a condition of approving NiSource's purchase of Columbia Energy Group of West Virginia. Consequently, the parent company put the Indianapolis Water Company, a private utility that served over a million people in Indianapolis and the surrounding areas, for sale.

France-based Suez and Vivendi and American Water Works Co. (being suited by Germany's RWE AG) were most often cited as the potential buyers for IWC.

The City of Indianapolis feared that the new owner would dramatically raise water rates to recoup its investment in the water company. To avert the rate increase and to capitalize on the benefits of public water system ownership, the city council voted 26-0 to pursue purchase of the water utility from NiSource.

In September 2000 the city petitioned the Indiana Utility Regulatory Commission (IURC) to begin the buyout. Concurrently, the municipal government began an effort aimed at educating the Indianapolis residents about the benefits of public ownership of the water company.

The city cited several reasons in its decision to pursue the buyout. Arguing that it only made sense for the local community to control "the most precious commodity on Earth" and that water was "key to the quality of life in Indianapolis", the city focused on rates and on local control.[vii]

The city leaders assured residents that public ownership would result in reasonable rates because a public utility does not pay federal or state taxes and because governments can borrow money for capital improvements at a much lower interest rate.

The municipal government also emphasized that a buyout would reassure that all operating decisions are made locally and that the customer service and repair functions would remain in Indiana.

The city asserted that a locally-owned water company would be positive for the business environment. A rate hike would raise the cost of doing business, resulting in higher prices for consumers. At the same time, affordable rates and responsiveness to the municipal objectives could help attract businesses looking to relocate to central Indiana and encourage local businesses to expand.[viii]

The local environmental community supported a buyout, citing problems resulting from private ownership of the water reservoirs. Seeking to increase profit, IWC created a real estate venture that developed waterfront properties around one of the reservoirs, leading to the water body's pollution from fertilizer, pesticide, and gasoline runoff. Much of the publicly-owned reservoir, by contrast, was surrounded with park land.[ix]

After three months, negotiations with NiSource broke down. So the city asked the Indiana Utility Regulatory Commission to set a price for the water company, arguing that an 1870 franchise agreement allowed it to purchase the utility even if price established by the commission was lower than that of other bidders.[x] The water company contended that the commission lacked the authority to do so. However, the commission ruled in the city's favor.

In the summer of 2001, after months of significant disagreement over price and the city's authority to purchase the system, the two parties agreed on a $522.5 million price tag, which included $132.4 million of the company's debt. The city pledged to offer all IWC employees comparable benefits and to honor all collective bargaining agreements.[xi]

In March 2002, IURC unanimously approved the city's proposed purchase of the IWC, finding that the utility would generate enough revenue to repay the bonds issued to finance the purchase. The commission also found that the city's promise to freeze the rates over the next five years benefited the public.[xii]

Indianapolis issued bonds to raise money for the purchase. The leading credit rating agencies assigned top ranking to the bonds, thus lowering the cost of borrowing. The bonds received an A1 ranking from Moody's Investor Services, an A-plus from Standard & Poor's and an AA-minus from Fitch Ratings.[xiii]

On April 30, 2002, NiSource and the City of Indianapolis closed the deal after meeting all required conditions. The final price was $540 million including assumption of approximately $160 million in IWC debt.

After purchasing the company, Indianapolis moved to outsource its operations to US Filter. The company promised to spend $17 million to resolve taste and odor problems and to invest several millions in infrastructure. The contract is incentive-based, rewarding the contractor if it meets or exceeds expectations.[xiv]

Washington Court House, Ohio

In 1991, the city of Washington Court House, Ohio decided to take over the local water system, then owned and operated by the Ohio Water Service Co. The company had been raising rates every 15-18 months and was not meeting the city's development objectives. The city believed that it would be able to operate the utility more inexpensively and more efficiently, thus keeping the rates stable. The city also sought to regain control of local development.[xv]

As is usually the case, the company mounted a legal and public relations campaign. It collected enough signatures to put the issue on the ballot. However, city residents voted for the municipal control of water. Following a two-year legal battle with the company, Washington C.H. purchased the water system for $10 million.[xvi] The city initially pursued a buyout via eminent domain, but the company agreed to settle during the course of the trial. The city felt it got a good price for the waterworks.

Washington C.H. decided it could operate the system itself instead of contracting operations out to a private contractor. It retained almost all of the company's former employees and one manager.

The city operations proved a true success story. One of the bond conditions required Washington C.H. to collect approximately 20 percent more in revenues than it spent to operate the system. Yet just two years following the buyout the city was collecting 60 percent more and enjoying $500,000 annual surpluses. Not only did the city live up to its promises not to raise rates in the three years following the takeover, but it was actually able to issue rebates to the local ratepayers.[xvii]

The city invested $9 million to build a new water storage tank and a new reservoir, and to double the water plant's capacity to 16 million gallons per day.[xviii] Despite the additional expenditures, Washington C.H. avoided rate increases and gave a 3-year 10 percent rate discount.

In reflecting on the buyout experience, Joseph Burbage, the city's Services Director, noted the importance of having good consultants and good knowledge of the system's condition. He also pointed out the importance of public outreach to educate the community about the benefits of municipal ownership. The city also had to reassure the company's employees that their jobs are secure, Burbage said, because their support is key to the success of the buyout. [xix]

Duval, Nassau, and St. Johns Counties, Florida

On August 1, 2001 United Water Resources (UWR) accepted a $219-million offer by the Jacksonville Electric Authority to buy out the company's Florida holdings in Duval, St. Johns, and Nassau counties. JEA is a municipal authority serving residents of Jacksonville and the surrounding areas.[xx] The transaction was completed the following December.

The public buyout brought a 25 percent rate reduction, on average, for United Water's former customers.[xxi] In 1997, when United Water was providing the water and sewer services for the three counties, the residents saw their rates increase by an average of $9.44 per month.[xxii]

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 12.53 percent and the sewage rates rose 5.43 percent. When reviewing the rate hike request, the PSC found that United Water overestimated its expenses by $1.05 million.[xxiii]

Together with lower rates, JEA's purchase of the United Water Florida holdings brought water and sewer services to Lighthouse Pointe, a development along Bells River. The residents had been waiting for a year to move in because the developer could not reach an agreement with United Water. After JEA took over the private utility, it worked with the developer to make the service available.[xxiv]

Huber Heights, Ohio

In 1993, Florida-based Avatar elected to sell off its water holdings, including Ohio Suburban Water, a small private water company that provided water for 40,000 customers in the city of Huber Heights, Ohio and parts of the Mad River Township. American Water Works Co., the largest investor-owned water provider in the United States, expressed its desire to buy the utility. The city voiced concerns about the New Jersey-based water giant controlling its water. It feared that the American Water Works would raise the water rates and extend water service to areas outside of the city limits without annexation, thus impairing the city's ability to grow.[xxv] Water services are an important incentive that municipalities use to guide growth. As a rule, outlying areas must be annexed to the city before obtaining access to municipal water.

The city attempted to acquire the water system from Avatar but was outbid by American Water Works. The Ohio Public Utilities Commission approved the transfer of shares and at the same time denied the city a hearing to plead its case.[xxvi] The city's fears soon materialized: In the summer of 1993 the company increased its rates by 30%.[xxvii] At the same time American Water Works moved to contract with Industrial Water Inc. for delivery of up to 2 million gallons of Huber Heights water each day to Wiley Industrial park, located in Bethel Township, outside of the city limits.

In an effort to prevent further rate hikes and to reclaim control of the city's economic development, the city initiated proceedings to take over the system through its eminent domain powers. The company unleashed its public relations force to prevent the takeover and collected enough signatures to put the issue on the ballot. However, its effort collapsed after the city residents voted overwhelmingly in support of the city's efforts to acquire the system.[xxviii]

While the city was still fighting the legal battle to reclaim control of the water system under the residents' clear mandate, the company persisted with its efforts to export Huber Heights water outside of the city limits. The city protested, arguing that the water pipes should be extended only in the event of annexation. However, in the pursuit of additional profits recognized through the service extension, the company blatantly disregarded the city's pleas and began piping Huber Heights water to the industrial park. Of the 2 million gallons per day the industrial park had contracted for, it was using only 10,000 gallons a day, and the county officials wanted to make the excess water available to the remainder of Bethel Township.[xxix]

In March 1995 the city avoided a lengthy legal battle by negotiating an out-of-court settlement with the company, and acquired the system. However, even after the buyback, the preceding activities of the American Water Works subsidiary continued to cause problems. Industrial Water Inc., through which the water was channeled to the industrial park, had subsequently sold its contract to neighboring Miami County, which claimed the rights for the contracted two million gallons a day. The settlement agreement provided that the city would continue piping water to the industrial park "until Ohio Suburban's obligations, if any, are resolved."[xxx]

Because of the American Water Works misdoings the city is now under a legal obligation to act against its own interest. Huber Heights feels that the Bethel Township is unfairly reaping benefits of the water infrastructure paid for by the city's ratepayers and taxpayers, while avoiding paying city taxes. It continues to argue that the township must be annexed to Huber Heights to have access to its water. The conflict remains unresolved.

Huber Heights contracted with EarthTech to operate the system. The city followed up on its promise to roll back the American Water Works subsidiary's 75 percent rate increase and has been able to keep rates very low and avert increases for seven years.

Pekin, Illinois

In 1982, Illinois-American, a subsidiary of American Water Works Co., acquired Pekin's water system from a local private owner. In the following 18 years (1982-2000) the rates increased by 204%. At the same time, the company failed to keep infrastructure up to date. According to Pekin City Manager Dick Hierstein, pressure problems have plagued several parts of the city, especially those experiencing commercial growth. However, the company hesitated to construct a needed water tower it earlier promised or to upgrade the undersized mains.[xxxi] The company's negligence and unwillingness to cooperate with the city in development efforts hampered the city's economic growth and added to the city's expenses.[xxxii]

In response to the soaring rates and inadequate quality of service, the city chose to consider acquisition of the local water company from Illinois-American through its eminent domain powers. A report by the Water Study Committee, commissioned to evaluate the feasibility of the acquisition, made a strong case for purchasing the water system.

Local control was a key factor that led to the Committee recommending a buyout. The body noted situations in which development was delayed or the city incurred additional expenses because Illinois-American disagreed with the developer or the company. It also questioned if Illinois-American could choose to sell water from the aquifer underlying the city to other communities despite local wishes.[xxxiii]

The Committee also found that the city ownership would save over $1.5 million annually, which could be used to help pay for the purchase and to reduce rates. It also cited the city's ability to access state and federal funding programs, for which Illinois-American is ineligible by virtue of being a private entity. These programs would mitigate the cost of capital improvements and benefit the ratepayers.[xxxiv]

The Committee also found that the company's service record was spotty. For example, a flood-causing system failure was allowed to go unaddressed for over 24 hours. In another case, the water service to two of the city schools was interrupted for a week. The company workers taped the notice to the school doors just before the students arrived for classes instead of notifying the school officials in advance.[xxxv]

Citizens For Locally Owned Water (FLOW), a citizen group that advocated public ownership of the water system, projected that at its present rate of infrastructure upgrades, it would take Illinois-American over 268 years to replace all city mains. This rate of progress was unacceptable, especially when some of the city mains were over 75 years old. The group also pointed out that in 1990 a local business was destroyed in fire when the firemen were confronted with inoperative fire hydrants and low water pressure.[xxxvi] Hierstein also argued that the city would obtain financing for infrastructure improvements at lower interest rates than the company.[xxxvii]

As city officials began calling for a buyout, Illinois-American responded with an elaborate public relations campaign that sought to convince the residents that the city lacked sufficient expertise to run the water system properly. The public relations firms hired by Illinois-American conducted surveying and placed television, newspaper, and radio ads to fight the buyout efforts.[xxxviii] Even the company's president was invited to come and try to convince residents to support private ownership of the water system.[xxxix] The city estimates that the company's spending on the public relations offensive approached $1 million. The city had only $30,000 to spend on public outreach.[xl]

Then Illinois-American hired a firm to collect enough signatures to put the issue on the ballot. Bolstered by a well-funded public relations campaign, the company narrowly won an advisory referendum on the system's ownership.

Although the city was not bound by the advisory referendum, the buyout question was put on hold. But Hierstein later predicted that it would inevitably be raised again because of the stark differences in priorities of a "profit-driven national company vs. a service-oriented and cost-conscious local government." Having managed cities with both private and public providers, Hierstein was convinced that the citizens and the government are served "far better" with a publicly-owned system.[xli]

The buyout debate did in fact return. In early March 2002, Illinois-American's poor response to a request for extra pressure to put out a fire at a local automotive store fueled a wave of criticism. The city claimed that phone calls made to the company to increase water pressure went largely unanswered. According to Hierstein, there was no one in the company's Pekin District office at the time.[xlii] The company later claimed it could not increase pressure because the fire cut off power throughout downtown.[xliii]

The fire came less than two weeks before another non-binding referendum on whether the city should pursue a buyout of the waterworks through any means necessary, including eminent domain. This time 61 percent of the voters approved the initiative, in part because they did not support RWE's proposed purchase of American Water Works.[xliv]

Following the referendum, the city council unanimously voted to request approval from the Illinois Commerce Commission to commence eminent domain proceedings against the water company.[xlv] The city filed the application in May 2002.

Peoria, Illinois

In October 1998, City Council of Peoria voted to buy back Peoria's water system owned by Illinois-American Water Co., a subsidiary of American Water Works Co.. The city believed that public ownership would stabilize rates and reduce the operating costs.[xlvi] According to Terry Kohlbuss, who has been coordinating the takeover, in 1998 Peoria's rates were among the highest in a rate survey prepared by Raftelis Financial Consulting.[xlvii] (Not surprisingly, the company has stopped providing information to Raftelis and in the 2000 issue of the rate survey Peoria was not listed).

Proponents of the takeover effort estimated that public ownership would have resulted in a 31 percent rate reduction over the first 10 years.[xlviii] A financial analysis prepared by Raftelis showed that the city would have a $6 million a year in excess revenues if it owned the company itself.[xlix]

The city also argued that the buyback of the company would place the much-needed control over economic development back into the city's hands. The company has not been very cooperative in the city's development efforts. In fact, a group of business leaders offered to lend the city up to $1 million for the takeover attempt.[l]

The city contended that the 1889 franchise agreement allowed Peoria to buy local assets of Illinois-American. The company disagreed and challenged the city's position in court.[li] Soon after, Illinois-American requested an 8.2 percent rate increase,[lii] just three years after an 8.8 percent increase in 1997.[liii]

Meanwhile, more questions have arisen about Illinois-American's performance and priorities. In 2001, the United States Environmental Protection Agency sought a $168,488 fine against the water company for failing to make a prompt report of a release of chlorine vapors in 1998. Illinois-American waited 20 hours before it reported it. According to the EPA spokesman James Entzminger, the notification had to be made within 15 minutes of the spill. After breathing the fumes, a Peoria firefighter was treated at a hospital.[liv]

The legal battle continues, and the buyout effort is currently on hold pending the court's decision.[lv]

Chattanooga, Tennessee

In 1998, the city of Chattanooga, TN moved to acquire Tennessee-American Co., a subsidiary of American Water Works Company, which owned the utility for 130 years.[lvi] Chattanooga's Mayor Jon Kinsley, who spearheaded the takeover effort, projected that public ownership would result in 25 percent rate reduction and some $100 million overall savings for customers over 10 years.[lvii] Kinsley was also responding to the company's exorbitant fire hydrant fees and to possible export of city water to Atlanta without public approval. In 1998, Tennessee-American Vice President Richard Sullivan admitted discussing supplying water to Atlanta with Atlanta area officials.[lviii]

Unwilling to sell, the company launched an extensive public relations and legal fight as the city filed a condemnation suit. In its quarterly earnings report, American Water Works acknowledged spending $6 million on costs incurred by the subsidiaries fighting takeover attempts in Chattanooga and Peoria, Illinois.[lix] According to the company's officials, most of these pre-tax costs were in Chattanooga.[lx] Tennessee-American employed the services of Burson Marsteller, a New York based public relations firm, and Baker Donelson, Tennessee's largest law firm to fight the takeover attempt.[lxi] Among other firms used by the company in the public relations offensive were Wirth Worldwide, responsible for polling, National Media used for advertisements, Moriah Group that provided political insight, and a temporary agency, Special Counsel, that performed background checks on Mayor Kinsley and Ken Hays, his former chief of staff.[lxii]

The city lost the public relations battle waged by the company. In October 1999, the city reached a settlement with Tennessee-American. In the settlement, the company agreed to lower Chattanooga's fire hydrant fees from $301.50 to $50 per hydrant, or from about $1.2 million to $200,000 a year.[lxiii] Such a significant drop in fees raises questions whether the city was paying reasonable fees in the first place. The agreement also provided that any decision by Tennessee-American to export water out of the area would have to be approved by the public.[lxiv]

Conclusion

Lexington has a rare opportunity to reclaim control of its water service and build its future on its own terms, not those dictated from the distant headquarters of the German energy conglomerate. Lower rates, better service, additional municipal revenues, and economic development are only some of the many benefits that the public ownership of the waterworks promises.

Most of the major cities in the United States, and 85 percent of the country's population receive their water from public utilities. A vast majority of these systems are operated by municipal employees.

Upon acquiring their waterworks, some cities have chosen to outsource operations of their systems to a private contractor. However, doing so often entails risks that can easily be avoided if the city runs the waterworks itself. Private contractors often promise significant savings, but just as often fail to deliver, and begin submitting change orders – reimbursement requests for items not covered under the contract. The contractor may also fail to adequately maintain infrastructure, especially if the contract is about to expire. If the city is not satisfied with the contractor's performance, it may be difficult to cancel the contract without paying significant compensation to the company. A dispute over contract language may result in a costly legal battle. At the same time, a well-run water department can achieve the same efficiencies that the private sector touts.

With or without a contractor, Lexington will benefit from owning its water system. It will be eligible to access state and federal funds to pay for infrastructure upgrades that are generally not available to private companies. Additional funding can come from issuing municipal bonds, which are tax-exempt. The city will not have to pay taxes on the revenues. Neither will it have to turn produce flashy profits to please shareholders or reward executives with excessive compensation, as do private companies.

Public ownership will help to stabilize rates and provide less expensive means of implementing capital improvements. It is clear that a buyout of the waterworks would be in the best interest of the system's customers. The elected officials of Lexington-Fayette Urban County Government should act to advance the interests of the people they represent and pursue a buyout.

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Public Citizen
Water for All
215 Pennsylvania Ave SE, Washington DC 20003 Ph. 202.546.4996
1615 Broadway 9th floor, Oakland, California 94612 tel. +1.510.663.0888
www.wateractivist.org
e-mail: cmep@citizen.org