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The water privatization "model"

A backgrounder on United Water's Atlanta fiasco

"Our work in the contract operations arena has been very exciting, particularly with our success in Atlanta. The cost reductions and improved efficiencies realized by these operations are a testament to the benefits that public-private partnerships can provide to municipalities across the nation."

- Jean Michel Brault, United Water president and acting CEO, Jan. 29, 2001

Atlanta and United Water part ways.

Headline in *Atlanta Journal Constitution*, Jan. 24, 2003.

In 1998, the city of Atlanta signed a 20-year, $428 million contract with United Water, a subsidiary of the French corporate conglomerate Suez, to operate Atlanta's water system. It was the biggest privatization contract in the United States, and its signing was celebrated by victory-declaring water corporations. Atlanta would be the "model" for other communities, gushed privatization's promoters and apologists. Taxpayers and customers would save money and systems would be improved, as privatization proved itself the win-win situation for the 21st century. Atlanta was going to show the way.

Or so the story went.

But even before United Water took over the system in 1999, there were suspicions that the company had vastly overstated the amount of money it could save, and vastly underestimated—at least publicly—the amount of work required to operate the system. When the company's assumed the system's operation, suspicion turned to remorse as Atlanta discovered the ugly realities of the "model" for privatization:

•United Water more than halved the number of employees, from more than 700 to just over 300. The company also slashed the amount of training provided to remaining employees to levels far below training requirements called for in the contract.

•A backlog of work orders and maintenance ballooned for virtually every portion of the system, from main breaks and facility maintenance to meter installation, hydrant repairs and fleet maintenance. Not only was the company failing to address the growing backlog of work orders, it couldn't even keep competent records of the backlog. A broken water line could take as much as two months to fix; maintenance projects hovered at a 50 percent completion rate.

•Almost immediately, United Water started hitting up the city for more money, and tried to add $80 million to the contract. The city refused. United Water came back with charges of $80 million for additional expenditures. Atlanta's Water Commissioner refused to approve the payments, but in a bizarre twist, letters authorizing the payments showed up with the signature of former Mayor Bill Campbell. Campbell in turn denied he had ever signed the documents. The city attorney ruled the authorizations invalid, and United Water eventually backed away from pressing the claim.

•United Water billed the city an extra $37.6 million for additional service authorizations and capital repair and maintenance costs, and the city paid nearly $16 million of those costs. Pay was withheld for the rest—$21.7 million—however, because the work either wasn't complete or hadn't even been started. United Water was billing the city for work it didn't do.

•The city found that United Water was improperly billing the city. For instance, routine maintenance was billed to the city as "capital repairs." And the city discovered that United Water personnel, on Atlanta's dime, were working on United Water projects outside of Atlanta, including efforts by the company to land contracts in other cities.

•The city repeatedly complained that United Water was uncooperative and less than forthcoming when the city requested information from the company. Trust in the company eroded to the point that the city spent $1 million to hire inspectors to verify United Water's reports.

•Even after slashing the workforce to dangerously low levels, failing to fulfill maintenance and repair duties called for in the contract and successfully billing the city for millions more than the annual contract fee, the much-vaunted savings from privatization didn't materialize, and the promise that a rate hike could be averted through savings turned out to be empty.

The promoters of privatization were absolutely right when they claimed the Atlanta contract would be a model for the privatization of water services. In that model, as so powerfully illustrated in Atlanta, the company makes promises it knows it can't keep, with the expectation that the city can simply be billed for additional charges later. While the extra charges are designed to boost the revenue side of the equation, the company attempts to dramatically cut its own costs by reducing the workforce to inadequate levels and failing to perform maintenance and repairs. The company is emboldened to pursue such an anti-consumer strategy because it has secured a long-term contract designed to hold consumers captive to the company's monopoly for decades.

Atlanta managed to get out, and now faces the daunting task of taking back its water system and performing needed upgrades that were neglected during United Water's tenure. Supporters of privatization, meanwhile, in a desperate if audacious stab at spin control, claim that the Atlanta lesson is still a model for other communities considering privatization.

"Just do everything completely the opposite of what Atlanta did," suggested one privatization promoter.

He's absolutely right. Whereas Atlanta signed its public water system over to a private company, other cities should do completely the opposite, and keep public resources under public control.