PUBLIC-PRIVATE PARTNERSHIPS

PPP vs. PC

PUBLIC CITIZEN

SORTING FACT FROM FICTION

When it comes to water, a small but tenacious group of activists is hurling angry words at North America's water companies. Not unlike political campaign trails, one side says one thing; the other side says something quite different.

The question for the public: Who to believe?

A WAR OF WORDS OVER WATER PITS ACTIVISTS AGAINST THE PRIVATE SECTOR. WHO SPEAKS THE TRUTH?

Good news for all - that's what private-sector water companies proclaim when they refer to public-private partnerships (PPPs for short, to define agreements between the public and private sectors for provision of specific services). Look at the track record in more than 1,000 communities across the United States and Canada, they argue. Quality water services and environmental compliance are provided at an affordable cost, often far cheaper than through traditional municipal water departments.

This view is backed by local, state and federal institutions, a variety of municipal associations, government think tanks, and public officials, including mayors, city managers, council members and some public works directors. And supporting politicians wear all political stripes – New Democrat, liberal Democrat, conservative Republican and libertarian.

But opponents to partnerships claim water companies are monopolies that are gaining control of the world's most precious resource. Perhaps the most stinging accusation is that companies spur rate increases and slash operating expenses solely for the sake of profit. Groups such as Public Citizen, ACORN and Council of Canadians have banded together in protest, taking their arguments to public meetings and the media. The battle cry has shape shifted into celluloid, with a film titled "Thirst" airing on PBS stations this summer with some of those very claims.

Founded in 1971 by consumer activist Ralph Nader, Public Citizen unabashedly states its concern this way: "With each drop of water that falls into the hands of private interests, any sustain-able solution to the global water crisis moves further and further from the public's grasp. Unfettered, this trend could spell doom for many of the world's six billion people."

Does doom lurk or does hyperbole run amok? This side-by-side analysis invites readers to make up their own minds. To keep the debate balanced and factual, we simply inserted information directly from the websites of Public Citizen and the Council of Canadians.

BORN IN THE USA (AND CANADA)

It's no small irony that Public Citizen fired up its engines in 1971, one year prior to the nation's very first public-private partnership for water services.

Consumer activist and Green Party presidential candidate Ralph Nader founded Public Citizen to "represent consumer interests in Congress, the executive branch and the courts." Public Citizen has significant accomplishments under its belt, including: "forcing the carcinogenic product Red Dye #2 off the market, securing the release of the Nixon White House tapes, helping to organize massive protests against the World Trade Organization and publishing the best-selling *Worst Pills, Best Pills*." Since its inception, the organization has challenged the airline, automotive, banking, health care, pharmaceutical and energy industries, and U.S. presidents.

Though it has taken 30 years to voice their resignations, Public Citizen has the water industry in its sights. The group has launched a campaign titled "Water for All" to help organizers rally against partnerships. Public Citizen provides individuals with a comprehensive tool kit that includes "water privatization" materials for soliciting media interest and contacting public officials.

It's democracy in action, for sure. Activists are provided with publications such as "The ABCs of Water Privatization" and "The Top Ten Reasons to Oppose Water Privatization."

So why all the fuss? The Council of Canadians web site states:

"No one should have the right to appropriate it (water) or profit from it at someone else's expense. Yet that's what corporations and investors want to do. And they see Canada's freshwater lakes, rivers and aquifers as a rich reservoir to tap."

In other words, political philosophy enters the picture. Regardless of technical prowess or the conditions of a given infrastructure, private-sector operators have no role to play in man-aging water resources, argues these groups. Nor does the concept of profit

In a partnership, a company does not own or control water.

Water partnerships began in Burlingame, Calif., in 1972. Decades later, the partnership remains strong.

sit well with Public Citizen as noted in their materials.

"Water privatization schemes through-out the world have a track record of skyrocketing prices, water quality prob-lems, deteriorating service and a loss of local control.

Vulnerable to corruption and operating according to a profit-driven corporate agenda fundamentally incompatible with delivering an essential service, private water companies are failing to provide citizens with safe, affordable water. Private corporations seek to increase profit margins by cutting costs; hence privatization is almost always accompanied by lay-offs."

BACK IN BURLINGAME

As Public Citizen was cutting its teeth in Washington, events were shaping on the West Coast that would birth an industry. In 1972, the city of Burlingame, Calif., was struggling with wastewater odor problems, effluent discharges and bad publicity.

Enter a new solution: the PPP concept. Burlingame officials hired Veolia Water North America (then named Envirotech Operating Services) to pro-vide full operations services for its 5.5-MGD (million gallons per day) waste-water treatment facility. This agreement represented the first time in U.S. history that the operational manage-merit of a publicly owned wastewater facility was shifted from a municipal government to a private company.

Other companies soon followed, pro-viding technologies and services pegged as "contract operations." Three decades later, private firms (including regulated utilities) operate more than 2,400 publicly owned water and waste-water facilities for nearly 2,000 municipal clients. Galvanized by presidential initiatives and bi-partisan support (including IRS Revenue Procedure 97-13 and various EPA initiatives), partner-ships are now commonplace. And the Burlingame partnership approaches 32 years of operation and io contract renewals, having won awards as the nation's longest-running water services partnership.

"The City of Indianapolis and Veolia Water have and continue to work closely together in a win-win partnership to realize economic and environmental benefits to our entire community, including a com-mitment to freeze rates for five years."

Mayor Bart Peterson of Indianapolis

"I thought it was a mistake when I first heard that Public Citizen opposed partnerships," says Mike Stark, president and CEO of Veolia Water North America. "Now I believe many of their members simply don't have the facts and that ideology drives the agenda of a few of their organization's managers. First of all, there's a big difference between a partnership and 'privatization' in which a regulated utility companies does own the assets that serve a given community. In a partnership, we don't own assets and we don't set rates. We are the technical partner for a community that continues to own its assets, set its rates and stay firmly in control of its strategic direction. The opposition can't even get it right about regulated utilities, which do own the assets but still don't set rates or own the water."

FACTUAL SHOWDOWN

Drawing from various arguments stated by Public Citizen, Council of Canadians and other opposition groups, a list of arguments against public-private partnerships follows, along with industry rebuttals.

CONTROL

CLAIM: Private-sector companies own and control water at the public's expense. "The rising power of water transnational corporations has threatened the power of citizens and local communities to control their own water."

RESPONSE: In a partnership, a company does not own or control water but simply operates-maintains or designs-builds-operates water and wastewater treatment plants and systems. The government entity (town, city, county, water commission, etc.) continues to own all assets, set rates and exercise control of water resources. The partner company functions as the technical operator and/or customer service provider.

RATES

CLAIM: Privatization leads to rate increases. Corporations have utilized rate hikes to maximize profits, which, by definition, is their bottom line. This bottom line often comes at the expense of water quality and customer service, but not at the expense of maintaining inflated executive salaries."

RESPONSE: Companies engaged in partnerships can't set rates and have documented cost savings of 10 to 30 percent. Companies report to municipalities or other regulatory entities that maintain rate-setting authority. Most municipalities have documented savings when utilizing partnerships instead of public-sector management. Without private-sector involvement, there would be little or no *public-sector savings!* Numerous examples for communities, large and small, have benefited (visit www.waterpartnership.org). Oklahoma City has saved $150 million on a wastewater partnership. Tampa Bay Water (Florida) is saving $80 million. Indianapolis consumers have seen rates frozen for five years through a partnership. A private-sector company's fee is based on a contractual agreement that typically includes increases based on the Consumer Price Index. Finally, partnerships are governed by local, state and federal law and by specific contractual obligations that set specific water quality standards and/or customer service standards.

WATER QUALITY

CLAIM: "Privatization" undermines water quality. "Because corporate agendas are driven by profits rather than the public good, privatization usually results in the compromising of environmental standards."

RESPONSE: The opposite is true. The private sector often assumes full responsibility for compliance and agrees to pay fines in the event of negligence. In cases where a city is facing a consent decree, administrative order or other compliance issues, public-sector water companies are often sought *specifically because the community is already out of compliance with environmental standards.* To underscore private-sector competency, water companies routinely win national, regional and state awards for environmental compliance and operational excellence. One example: Veolia Water North America's partnership at Vancouver, Washington's wastewater treatment facility has recorded a near-perfect record of compliance in an 18-year period – something few communities have experienced.

ACCOUNTABILITY

CLAIM: Companies are accountable only to shareholders, not consumers. "In many cases, deals that government agencies make with water companies include exclusive distribution rights for 25 to 30 years, effectively sanctioning a monopoly. Companies are under little pressure to respond to customer concerns, especially when the product in question is not a luxury item that families can do without if they are dissatisfied with the performance of the only provider."

RESPONSE: Companies are account-able to consumers through direct service provision and through direct reporting structures to public agencies. According to the 2004 Public Works Financing survey, 97 percent of all municipalities engaged in partnerships continue to use private-sector companies. Long- and short-term customer satisfaction is important to the long-

A Tale of Two Sides

Someone must be wrong...or lying! You decide.

OPPONENTS	PROPONENTS
Profit comes at the public's expense.	Savings comes through the hands (and hard work) of the private sector.
Rates increase.	Rates are stabilized, millions of dollars are saved or where rate increases are required, the rate of the increase is reduced.
Global companies are increasingly taking control of the world's water.	Public authorities continue to own the assets, set rates and make decisions about required resources.
Water quality or compliance is compromised.	Quality and/or compliance must be met or exceeded by contract terms. Fines can and are levied.

term economic health and reputation of any company.

LOCAL CONTROL

CLAIM: "Privatization" reduces local control and public rights. "When water services are privatized, very little can be done to ensure that the company, be it domestic, foreign or transnational, will work in the best interest of the community. Furthermore, if a community is dissatisfied with the performance of the company, buying back the water rights is a very difficult and costly proposition."

RESPONSE: Again, under public-private partnerships, the public partner owns the assets, controls the management of the assets and establishes user rates. Employees are local citizens who live and work in that community and have every reason to provide the best services to their neighbors and friends. Also, under a partnership, ownership of water rights by private-sector companies is extremely rare or non-existent.. Moreover, public-private partnership contracts can be written so that municipal customers receive a guarantee that a facility is in the same or better condition (less normal wear and tear) at the end of the contract as when the partnership began. Finally, maintaining assets is in the best interest of the private contractor, since the company would like the contract renewed and its reputation intact.

EXPERIENCE

CLAIM: Only public-sector employees can understand their community's system. Public-sector employees better understand their own system. When given the opportunity to compete, they are better equipped to effectively drive down costs.

RESPONSE: Partnerships meld local knowledge and talent with proven national experience. Successful partnerships arise from the clear definition of responsibilities and the framing of well-conceived and executed contracts. Partnerships meld the core competencies of companies (possessing technological expertise and diverse experiences in various geologies and operating environments) with the knowledge of employees (who have typically operated a given plan or system for numerous years). It is a merger of strengths.

Employee groups cannot provide financial guarantees required of private firms. They cannot assume operations and performance liabilities and cannot finance the significant capital investments required by many projects. They do not have strong balance sheets nor do they have the same depth of expertise and knowledge.

PERFORMANCE

CLAIM: After winning a contract, private firms have no incentive to perform. All incentive for good performance and customer service goes out the window after a company wins a contract. Long-term contracts are particularly disastrous.

RESPONSE: Contracts typically contain strict performance criteria for costs, quality, compliance and customer service. Periodic client "check-ups" help ensure the proper functioning of assets. As a contract is underway, a company's national reputation is too important to allow performance to lapse. Maintaining assets is in the best interest of the private contractor because it seeks to renew its contract. Similarly, a company is incentivized to perform ongoing maintenance and performance since emergency repairs are always more expensive than preventative maintenance. Finally, the public-sector partner can always contractually control and/or increase capital spending levels.

JOBS AND PAY

CLAIM: "Privatization" always leads to job losses. Companies will only make their money through massive layoffs.

RESPONSE: Savings and operating efficiencies can be gained from new technologies, capital improvements, chemical savings, continuous process improvement, job training and other tools used by the private sector. Individual communities typically dic-

Excellence abounds.

Communities of all sizes and in all parts of North America have benefited from public-private partnerships. Here are a few examples of Veolia Water North America partnerships.

TAMPA BAY WATER – a new water treatment plant that produces water exceeding local, state and federal standards while saving the community $80 million.

OKLAHOMA CITY – an award-winning wastewater operations partnership that has saved citizens $150 million over 18 years.

INDIANAPOLIS – the nation's largest water partnership has finished its second year having enabled the local water authority to freeze rates, expand customer services, exceed minority business goals, and reduce taste and odor complains from 500 in 2001 (pre-Veolia Water) to 37 in 2003.

VANCOUVER, WASHINGTON – 18 years of cost-effective, near-perfect environmental compliance.

MONCTON, NEW BRUNSWICK – a new water treatment plant that has saved the community $12 million and dramatically improved water quality.

tate employee goals. Reduced work forces usually occur through attrition and, in some cases, through transfer to other city departments. Essentially every industry and every community is faced with tighter operating budgets. The goal of most communities is to provide fellow citizens with the best service at an affordable cost, best delivered by combining the strengths of the public and private sectors.

In addition, partnerships and organized labor have logged a solid track record working together. Veolia Water North America has negotiated win-win agreements with numerous unions including the Teamsters, the American Federation of State, County and Municipal Employees, the International Brotherhood of Electrical Workers, the I.U.E-A.F.L.-C.I.0.,the Laborers International Union of North America, Service Employees International and CAW-TCA Canada.

A COMMODITY?

CLAIM: Water, to the private sector, is just a commodity. The commodification of water is ethically, environmentally and socially wrong," says Maude Barlow of the Council of Canadians. "It ensures that decisions regarding the allocation of water center on commercial considerations, leaving aside fundamental environmental, social and human rights' considerations.

RESPONSE: Water is not a commodity. It is a collective good belonging to everyone. Water resource management is the responsibility of public authorities. With this responsibility comes a cost for its treatment, delivery and regulation.

While these arguments are the most prominent, other allegations are expressed – companies will bulk export water to other countries (never demonstrated by any party as a feasible option) or poorer citizens will suffer most at the hands of the private sector (never the experience in North America because partnerships are reducing costs and stabilizing rates).

"I've debated numerous people to date and when I challenge them to approach this issue empirically, they can quickly point to Atlanta but offer few negative examples after that," says Dr. Adrian Moore of the Reason Foundation. "The point is there are well over 1,000 public-private partnerships out there that don't get the attention of one large contract that didn't work out. Where are the detractors when publicly man-aged systems fail to deliver high-quality water? Why don't they talk about how much more likely city leaders are to be happy with private partners than with public operation? It is a strange debate where theoretical concerns trump the data and track record in the real world and ignores that, in fact, theprivate sector does a good job managing public water resources."

Stark says that management of public resources comes with a burden. "Double standards are often the rule," he claims."When a municipality has a discharge violation, it may or may not get reported by media. In fact, such events are common across the country. But when we have a discharge, whether it's our fault or not, we get a headline story.

"Do we make mistakes? Sure. Whether one works in the public or private sector, mistakes will be made. But I remain convinced that the greatest value for citizens always comes from taking private-sector know-how and expertise and merging it with public-sector know-how and public governance. The record on partnerships is clear on this count."

"In Atlanta, two partnerships have helped us ensure local control and accountability to our citizens. Our Atlanta-Fulton County water partnership, operated by Veolia Water, has been a great success over the last 14 years. Under a separate contract, Veolia Water has been managing biosolids at the wastewater facility and helping us with cost and compliance issues."

Mayor Shirley Franklin of Atlanta

Recommended reading:

1. Public Citizen, *Top Ten Reasons to Oppose Water Privatization,* Public Citizen, Washington. D.C.. 2004 **www.citizen.org**
2. Water Partnership Council, *Establishing Public Private Partnerships for Water and Wastewater Service,* Water Partnership Council, Washington, D.C, 2004 **www.waterpartnership.org**
3. Reason Foundation website and papers available at **www.reason.org**
4 Scott Edwards. *The Road Less Traveled* found on several websites including the National Council for Public-Private Partnerships. **www.ncppp.org**