

## Chapter one

# Water in public hands: Remunicipalisation in the United States

By Mary Grant

Most people in the United States receive their water and sewer services from publicly owned and operated utilities, and the movement to retain, secure and strengthen public water services is strong and vibrant.

The United States has about 50,000 community water systems and 20,000 wastewater collection systems.<sup>1</sup> Nearly all wastewater services are publicly owned and public provision also dominates drinking water services.<sup>2</sup> Local governments and other public entities serve 86 per cent of the population through community water systems.<sup>3</sup>

## A long history of municipalisation

Historically, private water companies served many of the nation's largest cities until the turn of the 20th century, when cholera outbreaks and destructive fires inspired a surge of municipalisations. From 1880 to 1920, thousands of cities – including Baltimore, Boston, Chicago, Los Angeles, New York City, Philadelphia and San Francisco – assumed public control of water provision to improve water quality and extend service to low-income areas neglected by private providers.<sup>4</sup>

The movement to public ownership continues today. From 2007 to 2013, the population served by privately owned community water systems fell by 7 million, while the population served by local governments grew by 17 million.<sup>5</sup> Local governments are indeed expanding services to new areas and buying private systems with considerable frequency. This often occurs as cities grow;

local governments purchase systems in newly annexed areas and consolidate them with existing public infrastructure to improve services, distribute costs and better manage water resources.<sup>6</sup>

## Remunicipalisation: A strong force

Despite aggressive corporate efforts, privatisation of government-owned water and sewer systems remains uncommon in the United States. Further, a 2012 national survey found that only 6 per cent of local governments contract out water and sewer services to private, for-profit entities.<sup>7</sup>

Although privatisation is relatively rare, every year a handful of local governments exit such arrangements and return water or sewer systems to public operation. Remunicipalisation of water and sewer services is a strong force among contracting governments.

Since 2000, major water companies have lost 169 contracts to remunicipalisation.<sup>8</sup> That's a large number compared to existing private water management contracts, considering that four of the largest companies, representing an estimated 70 per cent of the US water outsourcing market, had a total of just 760 government clients in 2013.<sup>9</sup>

## How communities remunicipalise

Local governments typically remunicipalise water and sewer services by letting contracts expire or terminating contracts for convenience. That is, many deals allow municipalities to exit the arrangement early for any reason as long as the private operator is given sufficient notice, although governments may have to pay termination fees. "Termination for convenience" clauses and short contract terms are important checks on privatisation. Without them, it can be difficult for local governments to bring services back under public operation.

In some cases, governments have ended contracts because of serious violations of contract provisions. This is known as "termination for cause." It can be difficult, however, for a government to prove that the company has materially breached a contract, and many deals require arbitration first. Sometimes when governments threaten to terminate a contract, companies will try to negotiate a no-fault settlement to avoid blame or bad publicity, while waiving a portion of the termination fees for the government.

## Top reasons why local governments seek public control

Local governments remunicipalise their water or sewer services primarily to reduce costs and improve service.

### *Saving money*

Cost savings, in particular, is a driving force of remunicipalisation in the United States. A Food & Water Watch survey of 18 communities that remunicipalised water or sewer services between 2007 and 2010 found that public operation cut costs in these communities by an average 21 per cent.<sup>10</sup> Municipalities have realised significant savings by exiting privatisation arrangements and returning systems to public hands. The cases of Coeburn and that of Fairfield and Suisun are exemplary in this regard.

*Coeburn, Virginia.* In 2013 Coeburn, a small town in Virginia, was struggling to balance its budget. Its reserve fund had dropped dramatically since the Great Recession. Although the town had been able to reduce costs in every other department, its public works department was locked into a privatisation contract that required a payment increase to the private company.

Since 2009, Veolia Water North America, a subsidiary of the French multinational, had run Coeburn's entire public works department, including the water and sewer systems. In 2013, the town paid the company \$1.41 million – an astonishing 96 per cent of total annual budget. The contract was simply too expensive, so the town council voted not to renew the deal when it expired. In April 2014, the town resumed public operation of the department, cutting costs by 28 per cent.<sup>11</sup>

*Fairfield and Suisun, California.* In 2008, after three decades of private operation of the wastewater treatment plant, the board of directors of the Fairfield-Suisun Sewer District in California unanimously voted to cancel the contract with United Water and use public employees to run the facility. The district determined that remunicipalisation would save money and improve service.

The district had first privatised the operation and maintenance of the treatment plant in 1976. After a series of other contractors, United Water, a

subsidiary of French multinational Suez Environnement, took over the plant in 2007 when it bought the company that had earlier received a five-year deal with the district. By then, the district's board of directors had come to question whether private operation was in the public's best interest. When United Water took control, the district hired independent consultants to review options.<sup>12</sup>

The consultants found that public operation would cut costs in 5 per cent in the first year and 10 to 15 per cent in subsequent years.<sup>13</sup> The report concluded that private contracting costs would otherwise continue to "increase significantly" because of market consolidation and the "profitability goals" of the companies that would vie for any new deal.<sup>14</sup>

With public operation, the district could also attract and retain the necessary qualified personnel and improve performance. Under privatisation, the district's contractors had struggled to maintain adequate staffing and stable management.<sup>15</sup> There were five different plant managers in the previous five years, and the maintenance manager position was vacant at the time of the consultants' assessment. Staffing difficulties would have likely only worsened over time. The consultant projected that one-fifth of the district's staff would retire in the coming years, and that because private contractors offered worse compensation packages than their public counterparts in the area, it would be more difficult for a private firm to hire the necessary staff from an increasingly limited labour pool.<sup>16</sup>

Since 2008, public operation has met or exceeded expectations. The district has increased and then retained operation and maintenance staff levels.<sup>17</sup> In the first year of public operation, remunicipalisation cut total operating costs by 7 per cent, saving taxpayers \$1.3 million.<sup>18</sup> In fact, annual operating costs were lower by 2014 than in the final year of the privatisation contract.<sup>19</sup>

### *Improving service*

Beyond financial reasons, communities remunicipalise water and sewer services to improve performance. Unresponsive customer service and inadequate maintenance are frequent complaints under privatisation deals.

*Cameron, Texas.* In 2013, the city council of Cameron, Texas, unanimously voted to sever its contract with Severn Trent. Four years earlier, in 2009, the company had received a five-year deal to operate and manage the city's water and wastewater systems, promising to cut costs and improve service through better staff training and system upkeep.<sup>20</sup>

Within a few years, the city was deeply dissatisfied with the company's performance – from brown, foul-smelling water to inadequate treatment that prompted requirements to boil water before consumption to other violations.<sup>21</sup> “We hired you to take care of the water,” city council member Bill Harris told two senior Severn Trent representatives at a 2012 meeting. “I feel you've fallen down on the job.”<sup>22</sup>

In March 2013, the city took over the water and wastewater departments and began “working through challenges that Severn Trent left us with.”<sup>23</sup> Despite the problems with and frustration over the company's performance, Cameron had to pay \$64,000 to terminate the deal early.<sup>24</sup>

The city then began to address the problems left from the privatisation failure,<sup>25</sup> assisted in part by a \$250,000 Community Development Block Grant for water meter upgrades to reduce unaccounted-for water.<sup>26</sup> As part of its water conservation and drought contingency plan, the city also prioritised repairing water leaks. By July 2014, the utilities director Curtis Donovan reported that the water department met all permit requirements and had a satisfactory state review on quality levels.<sup>27</sup>

### *Gain local control to better manage water resources*

Public control makes coordination across municipal departments and government jurisdictions possible, allowing for better resource management. For example, many cities' water and transportation departments work together to time water pipeline replacements with street repairs to avoid redundant repaving work. Cities also use wastewater department trucks for other government tasks, including snow removal, and water department employees can help prepare for emergencies and natural disasters such as hurricanes.<sup>28</sup>

Private contractors and utilities, in comparison, have no incentive to share equipment and staffing with city departments, and they are not required to cooperate with government agencies to protect water resources, manage watersheds and work for long-term sustainability.

*Cave Creek, Arizona.* In 2008, Cave Creek, Arizona, assumed full public control of its water and sewer services after buying two private water systems and deciding against renewing contracts with American Water.

Cave Creek's water systems had been privately owned since their inception. Worried about insufficient water supplies and system upkeep, and facing water shortages that left county residents with intermittent outages and low pressure, the town decided to pursue public ownership and management to secure its water future.<sup>29</sup>

"We need to have control of the water utility so we can plan five, 10 and 20 years down the road," explained Cave Creek Mayor Vincent Francia in 2005.<sup>30</sup>

The town purchased two private water systems: the Desert Hills Water Company for \$2.5 million in 2006 and the Cave Creek Water Company for \$19.5 million in 2007. Cave Creek received low-interest loans from the Water Infrastructure Financing Authority, the state agency responsible for distributing federally subsidised State Revolving Fund assistance, to purchase the systems and make necessary improvements.<sup>31</sup>

At the time, the town hired American Water, which already operated the town's wastewater treatment plant, to run the water systems for one year. When the contracts expired, the town opted for full public control. During 2008, the town began publicly operating the water systems and wastewater treatment plant.

At a November 2007 meeting, Jessica Marlow, the town's utilities manager, said that there were three reasons why the town was taking over the operation of the water systems: "to improve customer service," "bring management and services locally" and "improve financial sustainability."<sup>32</sup>

Later during the same meeting, town clerk Carrie Dyrek outlined the "advantages of local control," including that local staff will provide all services. "Who [would be] better to assess the needs of our community?" she asked, answering: "The local employees who live and work in this community."<sup>33</sup>

In just the first two years of public control, Cave Creek invested \$16.2 million in upgrading its water systems and storage tanks to improve the reliability and sustainability of its water supply.<sup>34</sup>

## Onward

Public operation of drinking water and wastewater services prevails in the United States. Privatisation remains relatively uncommon, but each year several communities across the country remunicipalise their water and sewer services. The decisions to remunicipalise are pragmatic. Municipalities evaluate privatisation contracts on costs and performance criteria and determine that public operation is the best option. Local governments have saved millions of dollars and improved the quality of their water services through locally accountable public management. For communities across the United States, remunicipalisation has been a resounding success.

*Mary Grant is a researcher for Food & Water Watch, a US non-profit consumer advocacy organisation that works to ensure that food, water and fish people consume is safe, accessible and sustainably produced. Her work focuses on water privatisation and infrastructure financing in the United States.*

## Endnotes

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- 3 This is not a percentage of the total US population. As much as 15 per cent of people have personal sources of water, such as individual household wells, and thus are not connected to a community water system. See US Environmental Protection Agency 2013, op. cit.; US Environmental Protection Agency. 2002. Drinking water from household wells. January, p. 1.
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- 5 Over this period, the total growth in the population on community water systems, of all ownership, was 5 per cent with an additional 13 million people served. See US Environmental Protection Agency 2013, op. cit.; US Environmental Protection Agency. 2007. Federal safe drinking water information System. FY2007 inventory data, October.
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- 8 The number of water companies providing contract data varied over time as the market consolidated. In 2000, 12 companies reported information about contested government contracts, but from 2008 to 2013, only four companies provided that information each year. See: PWF. 2006. 10<sup>th</sup> annual water outsourcing report. *Public Works Financing*. Vol. 203. March, p. 4; PWF. 2014. 18<sup>th</sup> annual water partnerships survey. *Public Works Financing*. Vol. 291. March, p. 20.
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