Ask the Experts

"Are there ways that privatizing drinking water systems could be beneficial? Why or why not?"

Each issue, we ask members of the *On Tap* Editorial Advisory Board to answer a drinking water-related question. We then print as many responses as space permits. The opinions expressed are not necessarily those of the NDWC.

Let the Seller Beware

This is a question that each individual utility can only answer for itself. However, managers can keep a few key issues in mind when considering a move toward privatization.

As with most things in life, there are positive and negative opinions and stories. I have not had any personal experience with privatization, but I do have some co-workers and know several people who have had experiences with private firms. To be honest, most of their opinions favor the negative side of this argument.

A recent article in the *Wall Street Journal* documented the nightmare that Atlanta has been through after attempting privatization. They realized only 50 percent of the savings that United Water promised. And the system failed to collect $33 million in unpaid bills. Atlanta then decided to take back the operations of their water utility. I think we are all well aware of what occurred in California when power utilities tried privatizing—skyrocketing customer bills.

This certainly does not mean that all privatization is wrong or that people considering privatizing should abandon their current direction. But it does mean that they should not enter into any contract without first seeking expert legal advice and also searching out feedback from other systems that have moved that way.

For some smaller community water systems that have limited financial resources, privatization may be their only option in meeting federally mandated water quality parameters. Many systems simply cannot afford to put in the necessary equipment, or may lack the expertise, to treat their water to the quality required under new regulations and will have no choice but to seek outside assistance.

I would also point out that there is one other option possible for some utilities: negotiate a tie-in to a neighboring water system. This "dual-system" method of operation is becoming more common today than ever before, and I would bet that this might be a necessary step many systems will have to take in the future. In closing, I would caution anyone considering giving up control of their water utility—in any way, shape, or form—by pointing out an old adage that I would put a new twist on, "Let the seller beware!"

Nelson Yarlott
Resident Operator
Greeley, Colorado

It's Not Always A Bad Thing

The privatization of public systems is not always a bad thing. Its reputation comes from some of the business practices that have taken place over the last few years in a number of systems that large for-profit companies have bought out.

Privatization offers a way out for small public systems that just cannot afford costs associated with Safe Drinking Water Act compliance, while struggling to repair and replace aging infrastructure. And, while privatization may not be the perfect solution to everyone's problems, it is one of many tools that should be considered if a system is having financial, managerial, and technical problems.

Privatization's advantages are usually a much larger customer base over which small rate increases can provide revenue to bring the system up to standards. A large private system usually has larger buying power and can get services and goods at lower cost than a small system. Staffing by a private company that serves many small systems can be shared at significant cost savings.

Privatization's disadvantages are loss of public control over the utility. The customers no longer have a powerful voice in the operations of the water system. Rates often rise more quickly under privatization, but this is usually due to a concerted effort to correct existing problems in a short period of time. Loss of direct services can occur when staffing decreases or moves to some distant location.

Privatization is just another tool that can be used to correct a water system that is having significant problems continuing to operate. Like any tool, there is a proper time and place for its use.

Jerry Biberstine,
Principal Engineer
National Rural Water Association

Take A Closer Look

Few things can elicit more emotion than talk of privatizing drinking water systems. However, some communities need to take a closer look at some of the advantages it could offer.

Aging infrastructure combined with under-funded legislative mandates are forcing governments to look for alternatives to the status quo. Compliance and reporting requirements coupled with the war on terror have placed all of our water systems in the public view more than any other time in history. For small communities where the water plant operator also serves the community as its sewage plant operator, trash collector, and snow plow operator, the demands of today's water systems may possibly be best served via privatization.

The process can be quite demanding, but a well-designed analysis can point to the best direction a community can take. Always use the competitive process and establish baseline data that will be used to evaluate proposals and move the decision.

Quite simply, better service for less money is a winner in anyone's equation. Privatization can be beneficial.

Frank J. DeOrio
Director of Municipal Utilities
City of Auburn, New York

Regionalization and Consolidation May Be an Answer

Nationally and internationally, the privatization of drinking water systems is occurring with differing opinions on the benefits and problems. Washington's public water regulations require that a state-approved satellite management agency (SMA) either own or operate any new systems. These SMAs can be either a private or public entity.

In addition, existing water systems, especially smaller systems, elect to use SMA services or turn their systems over to SMAs to have 24/7 coverage and to meet federal- or state-certified operator requirements. Peninsula Light Company is an SMA, although the company is member-owed. Another SMA in our immediate area, Washington Water, is actually part of a larger private company based in southern California. So smaller systems in our area have some choices.

Although privatization or similar arrangements like SMA services can bring economies-of-scale, particularly in cost sharing of more expensive services such as auditing, legalities, and engineering, they can remove local control. Larger companies also may be able to provide more funding opportunities. Initial cost savings associated with privatization may occur with downsizing. But downsizing creates hardships for those who lose their jobs, and management may need to address potential problems, such as bitterness, associated with remaining employees.

Systems may be able to use regionalization or consolidation ideas without privatizing. Workloads can be redistributed, restructured, or picked-up by others for efficiency and cost savings. Peninsula Light Company restructured its workload within the company, used attrition and mutual arrangements, and reduced employee load by 1.5 full-time equivalent positions within the water department. We did this for financial reasons.

Water systems also can form partnerships with other water systems to share in large equipment or project cost expenditures. For instance, the Pierce County Regional Water Association understood and hired a consultant to work on a couple of projects affecting utilities because of state or local mandate. Having the association hire a consultant saved significant resources (time and money) for the smaller utilities. Other local water utility associations in the state have also teamed up to share expensive equipment.

With privatization or any type of ownership, water systems need to be careful that they are not exchanging short-term cost savings for routine maintenance and capital improvements that either reduces system reliability or defers present cost to future generations.

Lisa Raysby
Water Department Manager
Peninsula [Washington] Light Company

Protect and Preserve Local Resources

I received an interesting letter in the mail the other day. My wife and I were asked to surrender the stock we own in American Water Works Company, which owns Lexington's local water utility, Kentucky American Water, because RWE Aktiengesellschaft, a large German conglomerate, is purchasing the utility. The letter arrived in the midst of an intense debate about whether private or municipal ownership of Lexington's water supply system is in the best public interest. In that respect, it puts Lexington squarely in the international debate over the privatization of water systems.

Water is a finite resource—potable water even more so—and the United Nations has declared that access to safe and affordable water is a basic human right. The reality is that many developing nations, and many municipalities, do not have the resources to provide an adequate supply of safe water. Private companies, which have resources and technical expertise, can meet that need. But private companies have a profit motive, and the water they supply may not be affordable to those who most need it.

The debate in Lexington is polarized around several issues. The Coalition Against a Government Takeover suggests that municipal ownership of the water utility is a bad idea: purchasing the water system would burden Lexington with debt in financially troubled times; water rates would rise to pay for the purchase and fund unrelated municipal spending (the utility would be a cash cow); and infrastructure would deteriorate and lead to poorer quality water. On the other hand, Bluegrass FLOW points to the example of Louisville, Kentucky, which successfully owns and operates its own water system, and advocates municipal ownership. This kind of ownership eliminates the profit motive, and decisions about water use occur locally. In addition, financial resources stay local rather than be siphoned off to international corporations.

Lexington's government recently spent $100,000 to determine an appropriate purchase price for the water system, which ranges anywhere from $150 to $350 million depending on which evaluation method you care to use. They are now proceeding with plans to negotiate a purchase, and I am as ambivalent about the proceedings as is much of Lexington.

The American Water Works Company is in the business of selling water and making a profit; conservation and a social agenda are not a high priority. I hardly expect them to lower rates or develop infrastructure any more than the public service commission requires them to do. Municipal ownership has worked elsewhere, and local control of water supplies hopefully implies a greater conservation ethic. But Lexington's urban government does not have a stellar record in providing municipal services, like paving the streets, so I have considerable anxiety about how well they can provide safe water.

I have my own profit motive. I stand to get a lot more from my shares of stock if RWE buys them rather than Lexington. I also have friends at the water company, who have a much greater financial stake in this decision than I. But it annoys me (although it's understandable) that the water company bases its decisions about water from the perspective of expanding its service base and potential profit rather than protecting and preserving the local water resources.

Am I for privatization or public ownership of water systems? Ultimately, it should be decided at a local level. The current owners need to prove that they can treat and deliver safe, affordable water for the long term, and the potential owners need to demonstrate the same. And as far as my water system goes? At this point, I just don't know.

Mark Coyne
Associate Professor of Agronomy
University of Kentucky