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WATER

Trends in Water Privatization

The Post-Recession Economy and the Fight for Public Water in the United States

Fact Sheet • November 2010

A new wave of water privatization formed in the wake of the recent financial crisis. With municipal budgets in the red, various cities and towns across the country considered auctioning off their water and sewer systems to generate funds. But the sale or lease of water assets is not a smart way to balance budgets. Privatization could further weaken public finances, jeopardize water resources and saddle generations of consumers with debt.

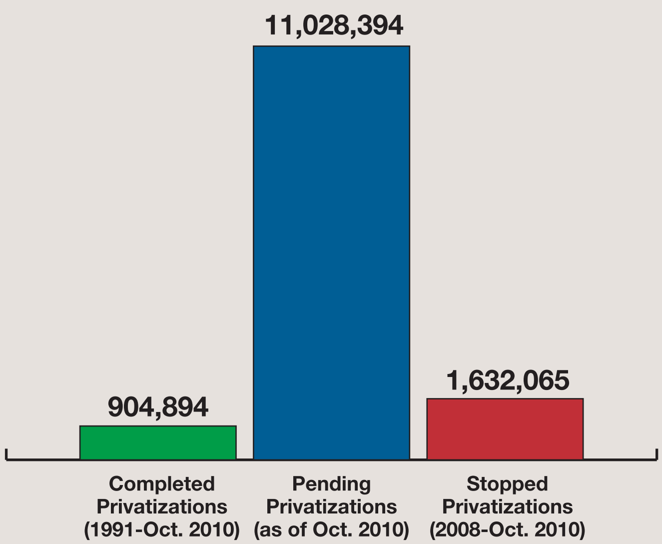
Food & Water Watch reviewed 200 prospective and completed sales and lease-concessions of publicly owned water systems over the last two decades and uncovered five aspects of this new trend in the privatization of water and sewer systems:

The idea of cashing out public water and sewer systems has attracted considerable new attention following the economic downturn. As of October 2010, at least 39 communities were considering the possibility of selling or leasing their water or sewer systems. That's five times as many systems as were actually privatized in a typical year over last 20 years.

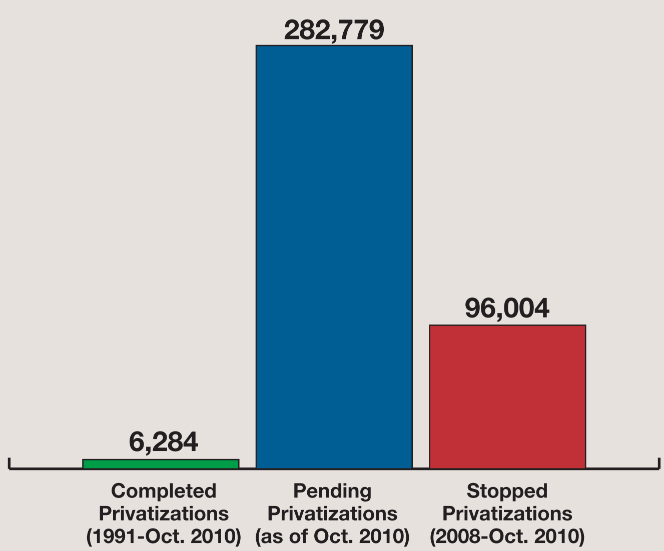
Potential privatizations would affect an unprecedented number of people. Systems facing possible privatization as of October 2010 served 12 times as many people as served by every system sold or leased over the last two decades. That's primarily because larger cities began considering privatization. The typical system facing the auction block in 2010 was around 45 times larger (in terms of people served) than the average system sold or leased since 1991.

Budget shortfalls drove the surge in potential privatization deals. Previously, cities considered selling their water systems primarily because the systems needed expensive

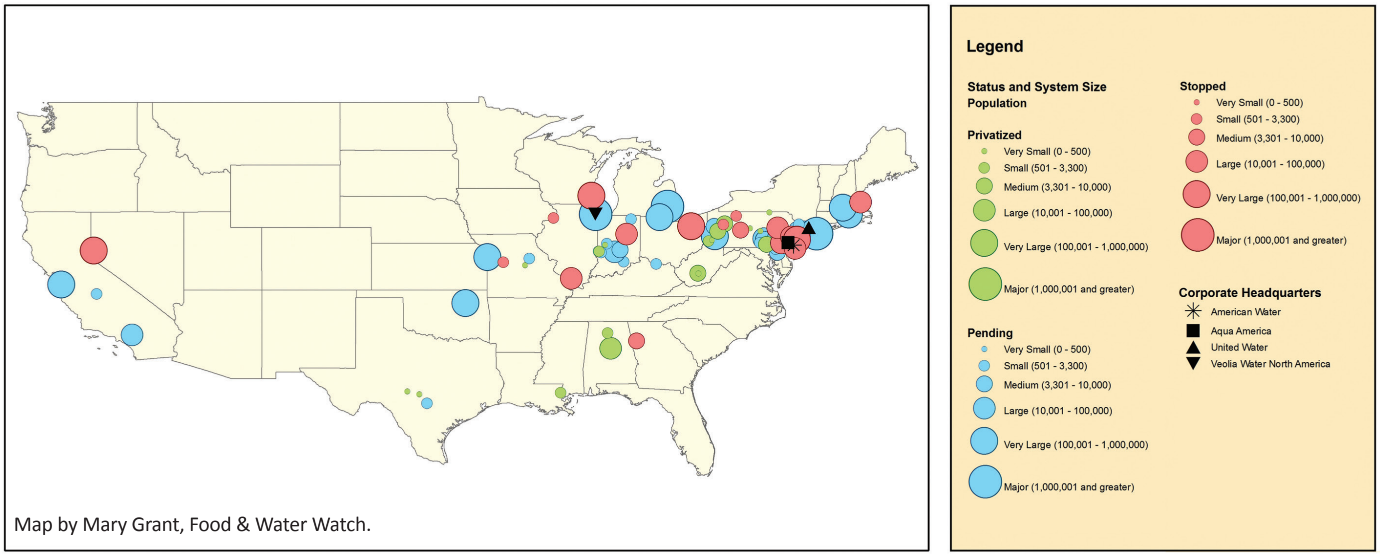
Total Population Served by Water and Sewer Systems Facing Privatization, by Status



Average Population Size of Water Systems Facing Privatization, by Status



Possible Sales and Concessions of Publicly Owned Water and Sewer Systems to Private Companies from 2008 to 2010 (Status as of October 2010)



improvements. Since 2008, several cities proposed privatizing even first-rate water systems to generate funding to help balance budgets.

Interest in selling and leasing water systems was greatest in the Rust Belt. Although the surge in possible privatizations was a nationwide phenomenon, prospective sales and concessions were concentrated in the Rust Belt, where cities were hit particularly hard by the recession. This region is also near the U.S. headquarters of the major water companies.

Strong public opposition thwarted water privatization. Despite the attention on privatization, there was not a groundswell of completed deals, largely because of public opposition. From 2008 to October 2010, communities rejected or otherwise stopped at least 17 prospective sales and concessions. This opposition likely will continue and prevent many, if not most, prospective privatizations.

Problems with Selling and Leasing Water Systems

Consumers have opposed auctioning off their water and sewer systems for good reasons. Privatization comes at a cost and often results in rate increases, and for many people, the loss of local public control over such a vital resource is an unsettling proposition.

Sales and concessions saddle consumers with debt. The funding that a city receives by selling or leasing its water system is effectively an expensive loan that a water company will recover from consumers by hiking water rates. A Food & Water Watch analysis estimated that the typical interest rate on this loan would be 11 percent. For a 20-year loan, this is about 56 percent more expensive than public financing through a typical municipal revenue bond.

Private interests hijack control of public water resources. Water privatization reduces public accountability and restricts public input into the operation of water and sewer systems. Consumers don't have a vote in the corporate boardroom, so private operating firms may make decisions that are not in the public interest. For example, private water companies may decide to extend service to sprawling wealthy new developments instead of lower-income communities with the greatest need.

Solutions: Renew America's Water

Sales and concessions of water systems are not a smart recovery plan for distressed local governments. Public officials should pursue more responsible courses of action and avoid quick fixes that jeopardize long-term financial wellbeing.

Instead of cashing out water assets, governments need to invest in their water systems. The country needs a dedicated source of federal funding to help renovate our water infrastructure. A renewed federal investment in our water resources can help create jobs, protect the environment and ensure that every community has safe, clean and affordable water service for generations to come.

For more information and citations, see Food & Water Watch's November 2010 report "Trends in Water Privatization: The Post-Recession Economy and the Fight for Public Water in the United States."

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