The Attempt to Privatize Municipal Water Systems and the Ramifications Involved

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June 13, 2019
Water Systems are Targets

What are these?
Water Systems are Targets

- 83% serve pop. less than 3,300 people
- 55% serve pop. Less than 500 people

**U.S. Natural Gas Utilities**

**U.S. Electric Utilities**

49,000

**U.S. Water Utilities**
Targets Quantified

~ 740 retail PWSs

- 708 (96%) serve < 10,000
- 643 (87%) serve < 5,000
- 523 (71%) serve < 2,500
- 6 serve more than 50,000
- 1 serves more than 100,000
Cash is readily available!

Roadmap2Retire.com

- “The next hot investment is water.”
- “Savvy and prudent investors will have some exposure to water in their portfolio.”
- “Water utilities provide a crucial service and . . . Pay a decent dividend.”
- “. . . proven dividend growers . . .”
- Dividend rates for largest shareholder water utilities range from 6.5% to 14.7%.
- “Water investment can be a lucrative path going forward for investors.”

Barron’s

- “Water is one of the most appealing long-term investments.”
The privateers (investor equity) are coming!

- Estimated $US156B in untapped private capital is available for infrastructure investments
- Since 2016, North America-focused infrastructure funds have raised $US53B in capital
- Over the last 5 years, American Water Works Co. Inc. stock price has risen from $45.06 to $105.50. Company is looking to invest between $1.9 and $2.1 billion in acquisitions. (population served approximately 15,000,000)
- Aqua America has completed more than 380 acquisitions since 1995, and plans to add another 20,000 customers in 2019. (population served approximately 3,000,000) Added 13,600 customers in 2018 by acquiring 5 systems
- Smaller players are looking to grab market share. Exit strategies vary.
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Purpose:
Return on Capital (shareholder return)
2 companies privatizing municipal water systems in Illinois gave $400,000 to state and local politicians.
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What are you talking about?

**Purchase/Sale**
- City sells water and/or wastewater system to provider
- City receives cash
- All assets are actually transferred to provider

**Long-Term Lease (40-50 yrs)**
- City retains ownership of assets or transfers for a set period of time
- City may or may not receive cash
- At the end of fixed period, assets returned or new agreement negotiated.
Why would cities do this?

- Cities can’t issue additional debt
- Cities lack political will to raise rates to adequate levels to maintain systems
- Rising O&M costs and regulatory requirements
- Decreasing federal assistance
- Decreasing populations
- Decreasing per capita income
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4 Illinois cities are suing American Water. They are having to use the exercise of eminent domain to take control of their water systems back.
Benefits of Privatization

- Globally, privatization works where the government is too weak to either provide adequate services or to regulate private companies.

- US – privatization advocates point out that privatizing saves consumers money.

- Provides cities with cash to pay for relatively short-term projects or O&M
Benefits of Privatization

- Globally, privatization works where the government is too weak to either provide adequate services or to regulate private companies.
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Out of the 500 largest water utilities, 7 of the top 10 with the most expensive annual water bills are either American Water or Aqua America.

2 of the other 3 are in California.
(Goleta Water District and Padre Dam Municipal Water District)
 Benefits of Privatization

- Biggest Benefit
  - Private companies are incentivized to spend money to improve infrastructure
  - Contrasted to governmental utilities, there is a strong incentive for government officials to keep rates artificially low, especially during election years.

- Best cases to support this argument – just look at what is happening with wastewater over the past 10 years and certainly into the future.
Benefits of Privatization, Really?

- Private water utilities charge consumers significantly higher water rates
- Must provide shareholder returns
- Higher cost of capital
- No market incentive to cut costs

For the typical household, privately owned water utility service costs 59% more than public water service — about $185 each year.

www.foodandwaterrwatch.org

Other Avg. = $26.34  
CAW = $17.21 (65%)
Atlanta – privatized its water system, but had to retake control four years later due to poor water quality and cost overruns.
Privatization Regrets

- Fort Wayne, IN – in 2015 finished paying $67 million to take control of water systems in two areas served by private companies
  - Court action took 13 years.
Missoula, Montana – fought to get ownership back; left city of 70,000 facing an $88.6 million bill, plus millions in expenses. (Investors received millions in dividends during private company’s three year management)
Privatization Regrets

- Payson, AZ – facing 52% rate hike; couldn’t block it
Privatization Regrets

- Mooresville, IN – City tried to buy system from American Water for more than $9 million. Judge ruled city could take system, but set value at $20.3 million.
  - Price was too high for city of 10,000 to pay.
Privatization Regrets

- Philadelphia Suburb of Limerick Township – customers are facing an 84% rate hike after the 2020 rate freeze is lifted
Privatization Regrets

- Lake Station, IN – American Water purchased system for $20.7 million
  - Under state rate setting laws, American Water could spread purchase price + 6.6% permitted profit + business and property taxes + legal fees + plus 6.6% profit on those expenses + 6.6% rate of return on $2.8 million in capital improvements to be made over 5 years over all American Water ratepayers in state.
Alternatives

- Look for local/regional solutions
- Consolidate with other governmental water entities
- O&M contracts (short-term) vs. sale

Public systems can work effectively if they are properly staffed and funded.
"If water is essential to life, water systems are essential to civilization."

~ David Sedlak, Water 4.0
Always Remember,

No matter what,
the ratepayer always pays!
QUESTIONS?

Follow us on social media!

#WEARECAW
Thank you!
Other Matters to Consider

- Liberty Water
  - Serves about 49,000 people in Arkansas
  - Looking to buy, not sell

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