

Issues with Public-Private Partnerships/Privatization of Water
By
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Prescott and Prescott Valley are currently exploring the possibility of a public-private partnership (PPP) to assist in the financing, construction, and/or operation of the proposed water pipeline. Meetings have been held with potential PPP contractors over the past few months. A public meeting, held by Prescott and Prescott Valley in early April, included a discussion of this subject. At that meeting it was decided that the two cities would pursue contracting with a financial expert to assist in evaluating the use of a PPP for the Big Chino pipeline.

Limited information regarding the use of a PPP for the pipeline has been publicly available. However, the cities have already entered into an agreement with a public relations firm for approximately \$150,000 per year to provide information regarding the pipeline to the public. I suspect that if a decision is made to proceed with a PPP the PR firm will be providing citizens with large amounts of information regarding the positive factors relating to the use of PPPs for such projects. The primary purpose of this article is to present information relating to some of the issues/problems encountered with PPPs and privatization of water in other areas in order to provide balance to the expected PR on this topic.

PPPs are relatively new in the U.S. The Political Dictionary defines PPPs as “Agreement between government and the private sector regarding the provision of public services or infrastructure.” (Source: Reference 1; specific sources for all numbered references follow the body of this article.)

“The term privatization covers a wide spectrum of water utility operations, management, and ownership arrangements. . . . There have been at least three models of water privatization:

- Outsourcing
- Design, build, and operate (DBO)
- Asset sale. . . .” (Source: Reference 2)

The definitions of Public-Private-Partnerships and Privatization of water appear to overlap.

Until recently providing water was, primarily, the province of government. A number of cities and countries have experimented (many unsuccessfully) with privatization or PPPs for water. Such action is often presented (1) as a way to secure financing from the private sector, (2) as a method to provide additional water availability through a major investment, such as a pipeline, or (3) with the argument that the private sector is more efficient.

Politicians are wary of increasing taxes to provide up-front investment. They explore ways to provide repairs or additional water through methods that appear free or low cost. However, any investment made through privatization or a PPP must be repaid--with interest and profit. Another issue with PPPs is that some cities have found that privatizing or contracting often does not deliver promised results. (Source: Reference 3, p. 2)

One must be careful when evaluating the information relating to water. For instance, some articles stated that water PPPs in several cities received awards from the U.S. Conference of Mayors. Further investigation disclosed that: "The Conference of Mayors has long enjoyed support of large water companies. Within the Urban Water Council, meanwhile, there is a Water Development BoardThe ... board is comprised exclusively of private companies....." (Source: Reference 3, p.3.)

A summary of two (of many) cities that have had issues with water privatization or PPPs, follows:

Atlanta, GA.: Atlanta turned over the operation of its water system on January 1, 1999, to United Water Services, a subsidiary of water giant, Suez, under a 20 year contract worth \$420 million. During 2003 the city and United dissolved its agreement, with the city citing (1) brown water running from faucets, (2) advisories telling citizens to boil water before drinking, (3) taking 10 days to repair a fire hydrant that leaked water like a geyser while the city was going through a drought, (4) breaks in water lines, and (5) failure to save the city money. Another web site stated that "...instead of living up to contractual agreements, United Water's management resulted in a backlog of 14,000 work orders, delayed repairs, inadequate responses to emergencies, 400 lost city jobs, charges to the city for work not done and United Water employees working on other contracts on Atlanta's dime." . One city council member was quoted as saying "My inner conservative no longer worships at the altar of Privatization..." (Sources: References 3, 4, 5 and 15)

Stockton, CA: In February 2003, Stockton's city council approved a 20-year, \$600-million contract with OMI-Thames to operate its water system. Subsequently staff was cut; rates were increased; leakage doubled, and maintenance backlogs skyrocketed, offensive odors came from the sewage plant, apparently because the company cut back odor-control chemicals to save \$40,000 per month. In 2006, the wastewater treatment plant spilled eight million gallons of sewage into the San Joaquin River. A citizens' group went to court. In 2008 the court supported the citizens' position; the city resumed control of its system on March 1, 2008. (Sources: References 3, 6 and 7)

Some of the other U.S. cities with various issues/problems with privatized/contracted water systems, or portions of systems, include:

Indianapolis, Indiana
Laredo, Texas
Jersey City, New Jersey

Buffalo, New York
East Cleveland, Ohio
Santa Paula, California
Bridgeport, Connecticut
Milwaukee, Wisconsin
Urbana, Illinois
Hingham, Mass
Lexington/Fayette County, Kentucky.
Hull, Mass
Perkins, Illinois
Peoria, Illinois (Sources: Various referenced articles)

The U.S. cities cited previously are not alone in their problems. Source 15, titled “Water Privatization Fiascos: Broken Promises and Social Turmoil” published in 2003, includes water case studies for the following international locations:

Buenos Aires, Argentina
Manila, The Philippines
Cochabamba, Bolivia
Jakarta, Indonesia
Nelspruit, South Africa
The United Kingdom

The Bolivia case study includes information regarding protests, strikes, and marches relating to water privatization that resulted in 175 injuries, and one fatality.

The following problems often occur when public water is privatized/contracted:

1. Major staffing cuts
 2. Deferred preventive maintenance
 3. Decreased responsiveness;
 4. Rapidly increasing rates
 5. Low water pressure/decreasing quality
 6. Loss of local control
 7. Increased financing costs
 8. Loss of transparency
 9. Environmental Issues (discharging untreated sewage into lakes/rivers.);
 10. Difficult, expensive and lengthy actions required to reverse agreements.
- (Sources: Several listed References)

These problems do not include another major issue—ethical problems, including public corruption. Several examples follow:

In 2003 the mayor of Bridgeport, Connecticut, Joseph P. Ganim, was convicted of “...corruptly soliciting more than \$500,000 in benefits, including cash, meals, entertainment, merchandise, home improvements and professional services.....

Among other things Ganim was convicted of extortion in connection with his selection in 1996 of the Professional Services Group (“PSG”) to operate the city’s waste treatment facilities.

Ganim conditioned his selection of PSG....upon the company’s payment of \$350,000 to Mr. Grimaldi and Mr. Pinto.” (associates of the mayor—comment added for clarification) “ Ganim was also convicted of bribery in connection with his awarding in 1999 of an 18-year extension of PSG’s contract with the city. In return Ganim received a kickback from Grimaldi in the amount of approximately \$150,000-one third of the consulting fee that Grimaldi was paid by PSG.” (Source: United States Attorney’s Office District of Connecticut Press Release, March 19, 2003)

Following his conviction, after a 10-week trial, mayor Ganim was sentenced to 9 years in prison.

Another mayor, convicted of accepting bribes relating to a water contract, was Emmanuel Onunwor of East Cleveland, Ohio. “A federal jury convicted Onunwor on multiple racketeering counts. OMI received a no-bid contract worth \$1.3 million annually to provide water, wastewater and meter-reading services to the inner-city suburb in early 2002.The IRS said that he (Onunwor—added for clarity) accepted nearly \$50,000 from longtime consultant Nate Gray and other contractors who did business with the city. In some of the worst of his misdeeds, Onunwor pushed a no-bid contract through City Council for a Colorado-based company, CH2M Hill, federal prosecutors said. Gray worked as a consultant at the time.” This article goes on to discuss the prosecution of a number of water dept. employees also involved in accepting bribes. Mr. Onunwor was subsequently sentenced to nine years in prison. His ex-wife was found murdered in 2008. (Source: WaterWebster.org; website: <http://waterwebster.org/ClevelandOhiowaterinvestigation.htm> and Plain Dealer newspaper, September 19, 2008 issue.)

An article by Public Citizen, dated August 2001, titled “The Big Greedy” includes the following information about the water company giant Vivendi (p. 6) : “Bribery mars Vivendi’s international record too. In 1997, Vivendi executives were convicted of bribing the mayor of St-Denis, France to obtain a water concession. And the former mayor of Angouleme, France, admitted accepting \$55,000 from Generale des Eaux in exchange for awarding a contract to the company.”

Page 5 of “The Big Greedy” states” The record of United Water Resources’ parent company, Suez Lyonnaise des Eaux, also deserves close inspection.....In 1996 government officials in Grenoble, France and a senior executive of Lyonnaise des Eaux received prison sentences for bribery relating to a contract award.” This information reported in “The Big Greedy”came from an article in The Times of London (April 2, 1995) titled “Top mayor’s fall shocks scandal-plagued France”.

Page 6 of “The Big Greedy” also discusses a bribe given to a member of the New Orleans Sewerage and Water Board (S&WB). It states “This past June., former S&WB member Katherine Maraldo and three former PSG executives were indicted for a \$70,000 bribe to

Maraldo, who in turn recommended that the city renew its wastewater treatment contract with PSG for five more years. The company was found to have falsified records to cover up the bribes.” PSG was acquired by U.S. Filter, a subsidiary of the French giant water company Vivendi. Subsequently Michael Stump, former president of PSG was sentenced to 21 months in prison, 3 years supervised release and a \$25,000 fine; Katherine Maraldo was sentenced to 10 months in prison (5 months in home confinement), 3 years supervised release, and a \$5000 fine. (Source: Report to Congress on the activities and operations of the Public Integrity Section for 2003, Public Integrity Section, Criminal Division, U.S. Dept. of Justice, p. 38).

Another article stated “In May 2001, PSG, a subsidiary of Aqua Alliance, reached a plea agreement with the U.S. Department of Justice in which Aqua Alliance pleaded guilty to a charge of bribery and was fined \$3 million. The plea was in connection with allegations that members of the Houston City Council received illegal contributions from PSG consultants. At that time there was a battle over the proposed privatization of Houston’s wastewater facilities and PSG’s lobbying team was drenching city officials with cash inducements.”

Apparently the big dollars associated with PPPs and privatization of water are just too tempting for some to corporate executives and politicians to remain honest.

Given this track record of issues, problems, and corruption, citizens should consider the results of water privatization/PPPs and perform their own research prior to local government action regarding water. The citations which follow provide a running start:

Sources for Personal Reference:

1. Public-Private Partnership (web: www.answers.com/topic/public-private-partnership)
2. “Water Privatization” by State Environmental Resource Center (web: www.serconline.org/waterPrivatization/fact.html)
3. “Waves of Regret” by Public Citizen, June 2005 (web: www.citizen.org/documents/Waves.pdf) This article cites issues with water contracts in 17 U. S. locations.
4. “No Silver Bullet: Water privatization in Atlanta, Georgia: a cautionary tale” by Frank Koller, CBC Radio, Feb. 5, 2003 (web: www.cbc.ca/news/features/water/atlanta.html)
5. “Atlanta, GA” by Food & Water Watch (Web: www.foodandwaterwatch.org/water/private-vs-public/usa/atlanta-ga)

6. "The Price of Privatization: Stockton, CA" by Food & Water Watch (web: www.foodandwaterwatch.org/water/private-vs-public/usa/price-of-privatization-stockton-ca)
7. "Water Consciousness" edited by Tara Lohan, publisher: Altnet Books, 2008; pp.48-57 relates to Stockton, CA.
8. "Privatizing U.S. Water" by the Institute for Agriculture and Trade Policy, July 2007 (web: www.tradeobservatory.org/library.cfm?refid=99838). This includes numerous references to other sources.
9. "Top 10: Why Water Privatization Fails" by Food & Water Watch (web: www.foodandwaterwatch.org/water/private-vs-public/reasons-water-privatization-fails)
10. "Public-Private Partnerships (Privatization)" by United States Environmental Protection Agency (web: www.epa.gov/owm/cwfinance/privatization.htm)
11. "Economic Failures of Private Water Systems" by Food & Water Watch (web: www.foodandwaterwatch.org/water/private-vs-public/economic-failures)
12. "United States" by Food & Water Watch --This article links with 16 sites of cities that have had issues with water privatization/PPPs (web: www.foodandwaterwatch.org/water/private-vs-public/usa)
13. "Uk: Thames Water faces fine of up to 140m pounds" by Hans Kundnani, The Guardian, July 19, 2006; (web: www.corpwatch.org/article.php?id=13912)
14. "RWE-Thames Water/American Water Works-Alert" by Public Citizen. The first sentence states: Thames Water has topped lists of worst polluters in England and Wales for two of the last three years.
(Web:www.citizen.org/cmep/Water/general/majorwater/rwe/)
15. "Water Privatization Fiascos" by Public Citizen, March, 2003
(web: www.citizen.org/documents/privatizationfiascos.pdf). This includes case studies from 6 foreign countries and Atlanta, GA.

Author's Brief Bio: Immediately prior to his retirement Dr. Kendig served as Director of Finance and Deputy CFO for the U.S. Dept. of the Interior (which included 10 bureaus, including the U.S. Geological Survey, the Bureau of Reclamation, and the Bureau of Land Management); he was named a "Distinguished Executive" by the President of the U.S. and has written extensively for professional publications. He is listed in Marquis' "Who's Who in America".