

# Public-Public Partnerships: Efficiency and Cost Savings

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# The Myth of Private-Sector Efficiency

“That private production has failed to deliver consistent and sustained cost savings shows the inadequacy of theoretical approaches based mainly on assumptions about competition and ownership.”

– Germa Bel and Mildred Warner  
Public Administration Review, October 26, 2006



# State-by-State Comparison of Public and Private Sewer Bills

State	Annual Household Bill		Percent that Private Prices are Greater
	Municipal or Local Government Utility	Private or Investor Owned Utility	
Alaska	\$348.00	\$625.13	80%
Arizona	\$247.32	\$371.52	50%
Florida	\$452.95	\$519.43	15%
Indiana	\$371.16	\$493.56	33%
North Carolina	\$285.36	\$567.12	99%
Ohio	\$466.00	\$556.66	19%
Texas	\$261.72	\$666.00	154%
West Virginia	\$382.35	\$410.92	7%
<b>Average</b>			<b>63%</b>

# The Downside of Public-Private Partnerships

- **Profits and Taxes** add up to 20 to 30% to operation and maintenance
- **Environmental Damage:** Privatization fails to transfer risk
- **Poor Service:** Corporations cut corners to pad profits
- **Limited Competition:** Consolidation in industry leads to expensive contract
- **Lost Public Benefits:** Economies of scale and inter-government coordination lost



# High Transaction Costs are 25% of the Contracts Cost



- **Contract Preparation:** Lawyers, consultants, feasibility studies, and bidding process adds costs
- **Conversion:** Severance pay, early retirement and staff retraining are expensive
- **Monitoring:** Cost is usually 2 to 4% of contract
- **Change Orders and Cost Overruns:** Private operators sometimes inflate costs after a deal is signed
- **Termination fees:** Municipalities are charged when things don't work out.



# Indianapolis

Indianapolis first privatized its wastewater system in 1993 when it awarded a 5-year, \$72 million contract to United Water. It renewed the contract in 1998 for 10 years and again in 2007 for 9 years with an 11 year extension.

- Improper maintenance spilled sewage-laden water onto city streets and into area waterways approximately 60 times a year
- In 2006 the Environmental Protection Agency intervened. Under an EPA consent order, the city agreed to make \$1.86 billion worth of improvements, pay a \$1.1 million penalty and spend \$2 million on supplemental environmental projects.
- Even though United Water was in charge of the system's operation, maintenance and management, the city still was ultimately responsible for environmental compliance.
- Sewer rates are expected to increase 427 percent by 2025.



# UK Privatization

After the Thatcher government privatized the water industry in 1989:



- **Water service became expensive.** From 1989 to 2008, the average household increased 42 percent over the rate of inflation. This is primarily due to the private sector's higher debt costs and profits.
- **Customers were overcharged.** From 1995 to 2006, water companies overcharged consumers £4.4 million.
- **No investment.** This is the same amount they under-spent on capital improvements compared to what was outlined in rate cases.
- **Fraud.** Because of a whistle blower, regulators discovered that Severn Trent provided deliberately miscalculated or poorly supported figures that allowed it to charge higher rates than necessary that would have resulted in consumers paying £42 million more by 2010. The company had to repay the £42 million.

# Water/Sewage Companies: Major Polluters in the UK

- In 2008, Britain's water companies were revealed as the worst polluters of rivers and beaches in the country — responsible for more than 300 incidents in the previous five years.
- In 2006, Thames Water was named the UK's biggest polluter, with the most fines. The water sector overall was responsible for more than a quarter of all serious industrial pollution events, making it the most polluting industry.





# Remunicipalize: Houston, Texas



In 2006, the city ended its contract with American Water and took over the operation of its Southeast Water Purification Plant. The city expects to save an impressive 17 percent, or \$2 million, operating the plant with public employees.

On January 31, 2008, Houston terminated its contract with Montgomery Watson and took control over its Northeast water purification plant. The city expects to save about 8 percent, or \$800,000, by operating the Northeast plant with public workers.

# Fairfield-Suisun, California

In January 2008, after three decades of contracting out the operation and management of its sewer system, the Fairfield-Suisun Sewer District unanimously voted to bring its system in-house and kick out United Water.

- **Savings.** Consultants hired by the city found that public operation would reduce operational costs by 10 to 15 percent, and these savings will come without the detrimental cuts that United Water would have made to employee retirement plans.
- **Stabilized rates.** Had the district not reclaimed the sewer system, households would have had to pay higher sewer rates to meet the company's demands for more money.



# Petaluma, California



**Savings.** With public operation, Petaluma expects to save \$1.6 million over the first three years. That's 18 percent on the total cost of operating the recycling plant. The public saves money by removing the contracting costs and profit requirement. A water corporation typically would have taken home 15 percent on top of the direct costs to run the facility.



# Public-Public Partnerships — Reengineering Utilities

**Nashville, Tennessee.** In three years, the public utility saved \$8.5 million through reengineering.

- By 2001, the public utility had already far exceeded expectations and brought the operating budget down to \$65.5 million – \$3 million more than its goal.

“We were already on the verge of cost savings, so why pay somebody else to do what we were close to accomplishing ourselves?”

– David Tucker, assistant director of Nashville’s Metro Water Services.





# Miami Dade County Water and Sewer Department, Florida

In the first 10 years through 2008, the program had produced nearly \$32 million in savings, while maintaining or improving services.



- In 2008, the department implemented 20 efficiency projects, saving an estimated \$3.7 million.
- At the suggestion of an employee, the utility initiated Sewage System Capacity Evaluations, which saved \$129,000 and has prevented costly sewage spill clean-ups, fines and additional system improvement costs.
- In 2007, National Association of Clean Water Agencies awarded the Miami-Dade County Water and Sewer Department a Gold Peak Performance Award in recognition of its outstanding compliance record.

# Public-Public Partnerships — Cooperative Buying Arrangements

- In Kansas City, Mo, the water services department joined forces with several neighbors through the Kansas City Regional Purchasing Cooperative to save at least 10 percent on equipment and supply costs and 35 percent on the cost of buying a new fleet.
- Baltimore Regional Cooperative Purchasing Committee is comprised of Baltimore City and Anne Arundel, Baltimore, Carroll, Harford and Howard counties. They identify regional interests and collaborate on strategies, plans and programs. Their cooperative buying program saved a combined total of more than \$1 million a year on the cost of supplies and services. For example, Anne Arundel, Md., saves more than \$100,000 on water treatment chemicals.



# Public-Public Partnerships — Cheaper



- Garden City, Mich., will save more than \$30,000 on upgrading water meters by contracting with the City of Westland instead of a private company.
- The Town of Cape Vincent, N.Y., teamed up with the village of Cape Vincent to purchase a single water tank to serve both municipalities. This produced \$1 million in savings and reduced the average cost per household by \$200 a year.
- The towns of Fairhaven, Marion, Rochester and Mattapoisett, Mass., saved \$4.9 million (23 percent) by working together to build a joint water treatment facility.

# Public-Public Partnerships — Faster

The City of Garland, Texas, found that the use of cooperative purchasing agreements not only reduces costs but also reduces procurement cycle times by 4 to 6 weeks.





# Clean Water Trust Fund

- Trust Fund would establish a process for allocating funds that is subject neither to earmarks nor to whims of the allocation process
- Trust Fund would guarantee a federal revenue stream for water and wastewater infrastructure

A vertical copper pipe with a 90-degree elbow. A yellow sticky note is attached to the elbow. The background is a light blue gradient with wavy lines at the bottom.

Repair me

# HR 3202

- Establishes a Trust Fund with about \$10 billion annual revenue input.
- Dedicated, firewalled revenue stream generated from four new taxes:
  - 4 cents per 5-gallon or less container of water-based beverages
  - 3 percent wholesale tax on “flushables”
  - 0.5 percent wholesale tax on pharmaceuticals
  - 0.15 percent tax on corporate profits over \$4 million per year
- Expands project eligibility for State Revolving Funds to include green infrastructure projects



# Changes Needed to HR 3202



- Change eligibility for Drinking Water SRF to exclude privately owned, operated and managed systems
- Allow municipalities to use funds to municipalize private water or wastewater systems





Thank you

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