



29 ½ Page Avenue
Asheville, NC 28801

The Impacts of Privatizing Municipal Water and Sewer Systems

The Myths:

Myth 1: Privatization increases economic efficiency and cost-savings for municipalities and customers.

The truth: To minimize costs, private companies often use poorer quality construction materials for maintenance and system improvements, cut jobs, and/or forego water conservation programs. In many cases, individual household bills increase after privatization of a system. Any cost-savings that are created typically benefit the company, not the customers.

Myth 2: Privatization improves service and brings increased technical expertise.

The truth: Communities whose water systems are transferred to private hands often lose expertise in the form of staff layoffs, and have decreased opportunities for public involvement in decision-making. Due to proprietary operating information, large private companies are less likely than municipal systems to share expertise with neighboring systems.

Myth 3: Privatization injects more capital to finance needed infrastructure improvements and transfers risk to the private sector.

The truth: The capital invested by private utilities in system improvements is actually lower than for publicly owned ones for systems of similar size. Most private companies do not take on financial risk without support from governments through loans or profit guarantees.

The Consequences of Privatization:

1. **Decreased affordability.** In North Carolina, the average annual household water bill is 69% higher for customers of private water utilities. Municipal decision-makers considering privatization of their water assets must evaluate the likely impacts on the city or town's most economically vulnerable residents. The cost of water and sewer for people with the lowest income levels approaches or exceeds the U.S. Environmental Protection Agency's threshold for affordability of water and sewer, while those in higher income brackets spend a much smaller proportion of their income for those services. Most private companies use single-block or flat rate structures which disproportionately burden low-volume users.

2. **Customer service and water quality concerns.** Water service and water quality are often already poor in "troubled" systems that are in need of infrastructure improvements or chronically out of compliance with the Safe Drinking Water Act standards, so when private companies purchase and operate these systems and are slow to respond to concerns, residents may suffer from unsanitary conditions. Unclear billing and failure to provide accessible payment options have led to water cutoffs for many customers. Notifications of rate increases and water quality alerts do not reach all customers due to insufficient notification efforts, poor timing, or language barriers.

3. Reduced transparency and accountability. Companies may limit disclosure of operating information to protect access to operating strategies and to reduce costs associated with customer notification and interaction. Without full disclosure of information on operations, customers can't act to protect their interests.

4. Regulatory failure to protect consumers' interests. Customers have questioned the NC Utilities Commission and Public Staff's ability to regulate in the public interest as the agencies have repeatedly allowed substantial and widespread rate increases with inadequate justification, as well as limited enforcement of record-keeping requirements for NC private water companies.

5. Irreversible loss of a public asset to private hands. Nationwide research has shown that the short-term budget solutions sales of municipal systems to private companies seem to offer lead to a worse financial situation in the long term. At the same time, more frequent and intense droughts across the Southeast, and increasing demand for our water resources, highlight how valuable these resources are to our communities. Loss of these resources to private interests is a risk to the health and financial stability of our cities and towns. Private control of water resources makes it more likely that commercial or industrial interests will take priority over local domestic customers, and local resources may be transported to other regions if it is more profitable.

As of early 2012, there have been no sales of municipal systems into private hands in North Carolina; instead, privatization is mainly taking the form of corporate acquisition of small, "troubled" rural systems, many of them wells. Some private companies, such as Aqua NC (owned by Aqua America) are also reselling water and sewer services purchased from a public entity, such as Charlotte-Mecklenburg Utilities.

However, in other states and countries municipalities have seen disastrous results when relinquishing control of their water and sewer systems. Prominent examples include Atlanta, where the City ended up taking back the water system from United Water after the company failed to live up to agreements in the contract, and Fairbanks, Alaska, where rate hikes and sewage backups followed privatization.

Resources for Decision Makers:

Privatizing NC's Water, Undermining Justice (Clean Water for North Carolina, 2011): <http://www.cwfnc.org/documents/privatizing-water-undermining-justice.pdf>.

Money Down the Drain: How Private Control of Water Resources Wastes Public Resources (Food and Water Watch, 2009): <http://www.foodandwaterwatch.org/tools-and-resources/money-down-the-drain/>.

The Top Ten Ways that Private Control of Water Wastes Public Resources (Food and Water Watch, 2009): <http://documents.foodandwaterwatch.org/downDrainFS.pdf>.



Clean Water for North Carolina is a statewide nonprofit organization working for clean, safe, affordable water for all. Since 2005 we have led research and outreach on water privatization in NC.