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WATER

The Public Works

How the Remunicipalization of Water Services Saves Money

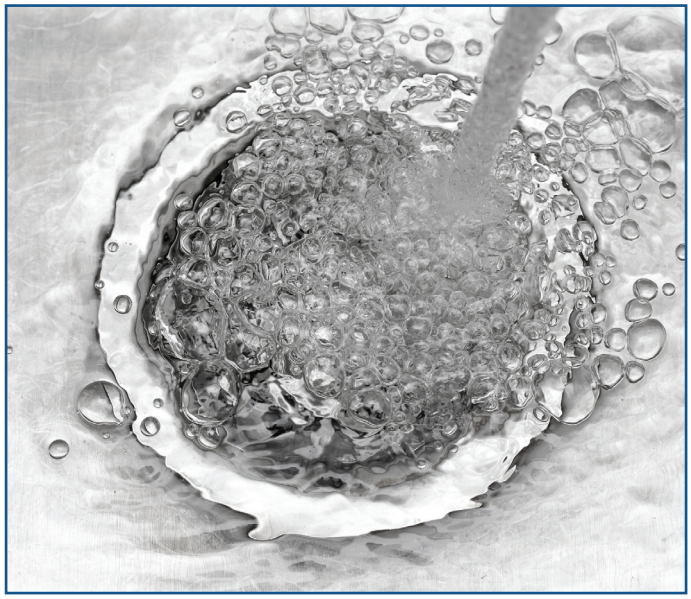
Fact Sheet • December 2010

Local governments across the country have uncovered a smart way to reduce costs and improve the performance of their water systems: They are exiting management contracts with private water companies and bringing water services under public control. A number of cities and towns have saved millions of dollars by running their water utilities with public employees instead of private contractors. For these communities, public operation is a much better deal.

Public Operation Averaged 21 Percent Cheaper than Private Operation

Food & Water Watch reviewed 18 communities that reclaimed* public management of water or sewer services between 2007 and 2010, and found that public operation was an average of one-fifth cheaper than private operation. A municipality typically saves 21 cents on every dollar by returning their water systems to public hands.

For Sioux City, O'Fallon, Petaluma and Fairfield-Suisun Sewer District, the return to public operation came after more than two decades of private operation.



"One of the major issues with Arizona American has been the call to an 800 number. Somebody in some remote state would answer the phone and wouldn't know what was going on in Cave Creek."

– Mike Rigney, assistant utilities manager of Cave Creek, Arizona

Improved Service at a Lower Cost

Public operation can simultaneously cut costs and improve performance.

Cave Creek, Arizona, took over its water services in 2008, deciding against renewing a management contract with American Water. During a presentation to the town council in November 2007, the town's utilities manager explained that the benefits of public operation included local management, enhanced financial sustainability and improved customer service. Mike Rigney, the assistant utilities manager, then added a telling example of how local management can improve service.

* Liberty, Mo., was the only surveyed city that had not yet returned its system to public operation by November 2010. In August 2010, the city's public works director said he expected it to occur before year's end.

A Nationwide Phenomenon: Saving Money with Public Operation

From 2007 to 2010, at least 18 local governments returned water and sewer systems to public hands to reduce costs. Map by Mary Grant, Food & Water Watch.

"One of the major issues with Arizona American has been the call to an 800 number. Somebody in some remote state would answer the phone and wouldn't know what was going on in Cave Creek," Rigney said. "By handling the system locally and by having it in real time and by having constant communication with the field people, we will know exactly when the problems occur, what the status of that repair is, and be able to communicate more effectively with customers to be able to resolve problems."[19]

At end of the town's presentation, one councilmember commented that the town's findings were the exact opposite of what the private sector presented at the National Congress of Cities earlier that month. The town planner responded that cost-effectiveness was the primary reason for the takeover and private enterprise involved additional costs, including profits and overhead.[20]

Indeed, the town reported that it publicly ran the water system during 2009, "eliminating an operating contract with a private company and improving operations while reducing operating costs."[21]

Evansville, Indiana, expected to save $14 million over five years with public operation. The city's utility director planned to use the savings to repair equipment that was not properly maintained under private management and to minimize water rate increases.[22]

"We will be able to better control costs, direct staff more effectively, and put a management team in place that will allow the Utility to run the water and sewer systems more efficiently than a private company," Mayor Jonathan Weinzapfel said upon announcing the public takeover. "It's the Utility's experience that private management has not fulfilled expectations nor provided the necessary level of industry expertise."[23]

Durham County, North Carolina, took over its wastewater treatment plant in February 2009. United Water, which had operated the plant, terminated the contract after the county documented various problems with its performance, including inadequate preventative maintenance, and requested that it develop a plan to resolve these issues.

Cost Savings With Public Operation of Water and Sewer Systems: A Survey of 18 Local Governments

Location	Est. Residential Population Served	Years Privatized	Last Private Operator (Parent Company)	Contract Type	Savings (anticipated or realized)	
Biddeford, Maine[1]	21,383	1991-2009	OMI (CH2M Hill)	Wastewater treatment plant	$150,000	12%
Cave Creek, Ariz.[2]	9,000	2007[a]-2008	American Water	Cave Creek and Desert Hills water systems	$1,335,017	29%
Durham County, N.C.[3]	8,000	1993-2009	United Water (Suez)	Sewer system	$850,460	35%
Evansville, Ind.[4]	158,628	1992-2010	EMC (American Water)	Sewer system	$2,737,522	21%
		1997-2010	American Water	Water system		
Fairfield-Suisun Sewer District, Calif.[5]	135,296	1976-2008	United Water (Suez)	Wastewater treatment plant	$963,539	13%[b]
Gary, Ind.[6]	180,000	1998-2010	United Water (Suez)	Wastewater treatment plant	$8,000,000	50%
Horn Lake, Miss.[7]	15,545	1992-2008	Southwest Water	Sewer system	$240,000	36%[c]
				Water system		
Houston, Texas[8]	2,700,000	1996-2007	American Water	Southeast water treatment plant	$2,800,000	13%
		2001-2008	MWH Constructors	Northeast water purification plant		
Lampasas, Texas[9]	7,868	1995-2010	OMI (CH2M Hill)	Sewer system	$522,278	12%
				Water distribution system		
Leander, Texas[10]	25,740	1991-2010	Southwest Water	Sewer system	$200,000	24%
				Water distribution system		
Liberty, Mo.[11]	30,000	1995-2010[d]	OMI (CH2M Hill)	Water treatment plant	$249,647	16%
North Adams, Mass.[12]	15,000	1992-2010	United Water (Suez)	Water filtration plant	$35,000	12%
O'Fallon, Mo.[13]	25,002	1984-2009	Alliance Water Resources	Sewer system	$500,000	15%
				Water system		
Petaluma, Calif.[14]	58,142	1979-2008	Veolia	Water recycling plant	$1,578,648	17%[e]
Sioux City, Iowa[15]	500,000	1982-2010	American Water	Wastewater treatment plant	$1,000,194	15%
Skaneateles, N.Y.[16]	5,116	1993-2010	Severn Trent	Wastewater treatment plant	$30,000	26%
Surprise, Ariz.[17]	27,116	1997-2009	American Water	Water system	$5,000,000	20%[f]
Webb City, Mo.[18]	8,304	2006-2010	OMI (CH2M Hill)	Center Creek wastewater treatment plant	$44,000	20%
Average						**21%**

Notes
[a] The city purchased two privately owned water systems in 2006 and 2007, and then contracted out the operation.
[b] Savings were based on expected increased private profit level of 15 percent; savings over 2008 contract budget were estimated to be 4 percent. In-house operation reduced total expenses (excluding interest and depreciation) by 7 percent in the fiscal year 2008/2009.
[c] Savings estimated to be between 36 percent and 55 percent ($360,000 a year)
[d] Expected to end in 2010
[e] Estimated savings over the first three years
[f] Savings over the first five years

Expecting other private firms to have similar problems, the county board of commissioners unanimously voted to bring the plant in-house. Public operation exceeded the county's expectations. It was expected to improve performance without increasing costs, and it actually reduced costs.[24]

A Tool to Ease Budget Constraints

Cities and towns can help mitigate budget shortfalls by cutting out the wasteful spending associated with private water management contracts. Too often local governments enter into and renew deals with private operators without properly comparing the costs. They might be surprised at how much extra they're paying for privatized service. The fiscal pressure resulting from the recent economic downturn should inspire public officials to reexamine the efficacy and efficiency of continuing to contract out water and sewer functions.

With effective local oversight and public involvement, publicly run water systems can achieve cost savings not possible under private operation. Public control eliminates the private contractor's profit requirement as well as the overhead expenses associated with negotiating and monitoring complicated contracts. Plus, instead of siphoning off funds to private owners around the world as the leading water companies do, publicly run utilities reinvest the funding collected from water bills into their communities.

Responsible public management can help protect water resources and ensure safe, reliable and affordable water service for every community member.

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