

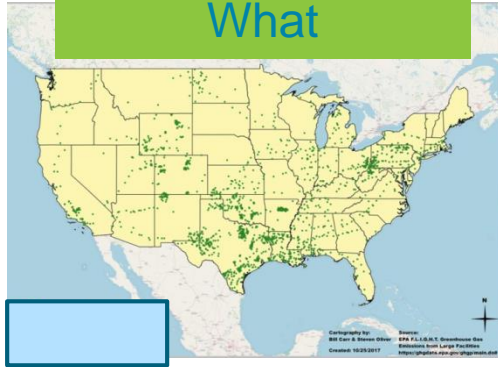


# The Attempt to Privatize Municipal Water Systems and the Ramifications Involved

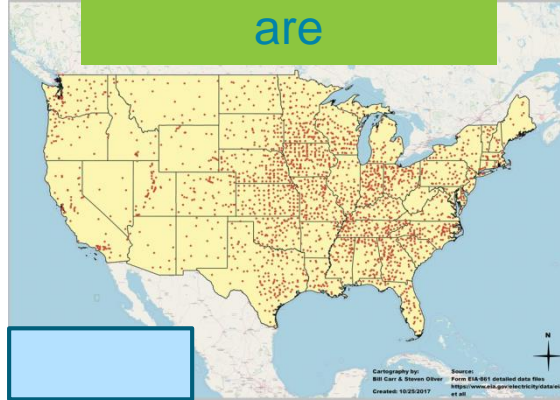
C. Tad Bohannon  
June 13, 2019

# Water Systems are Targets

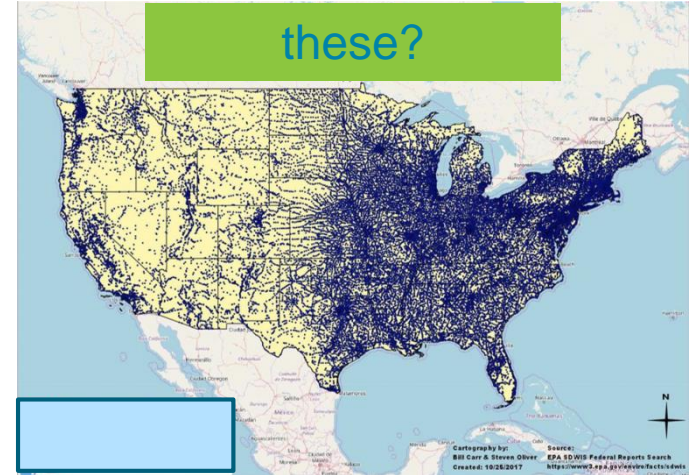
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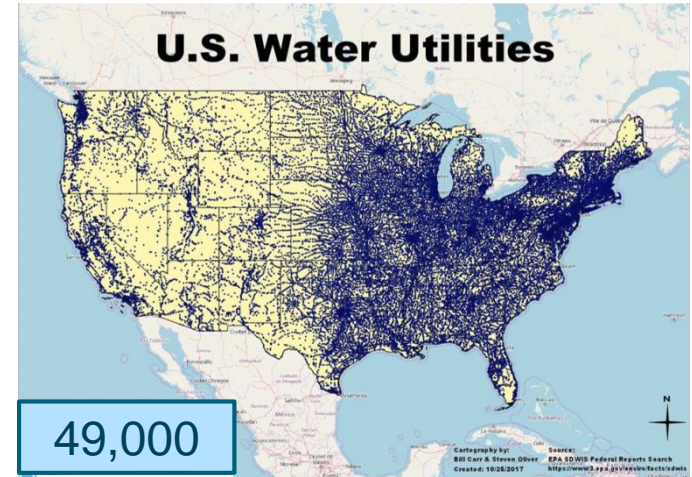
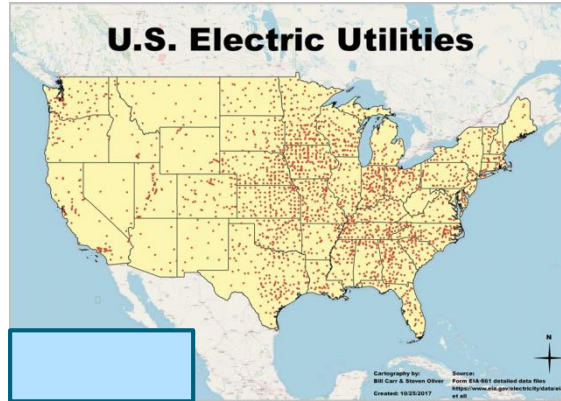
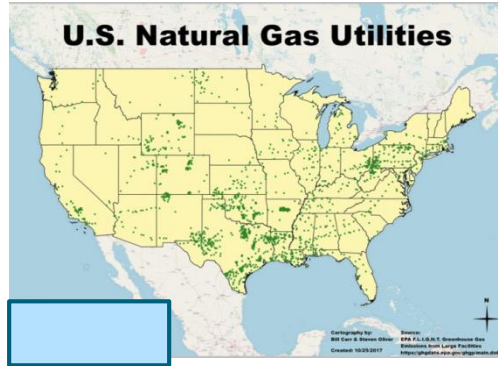
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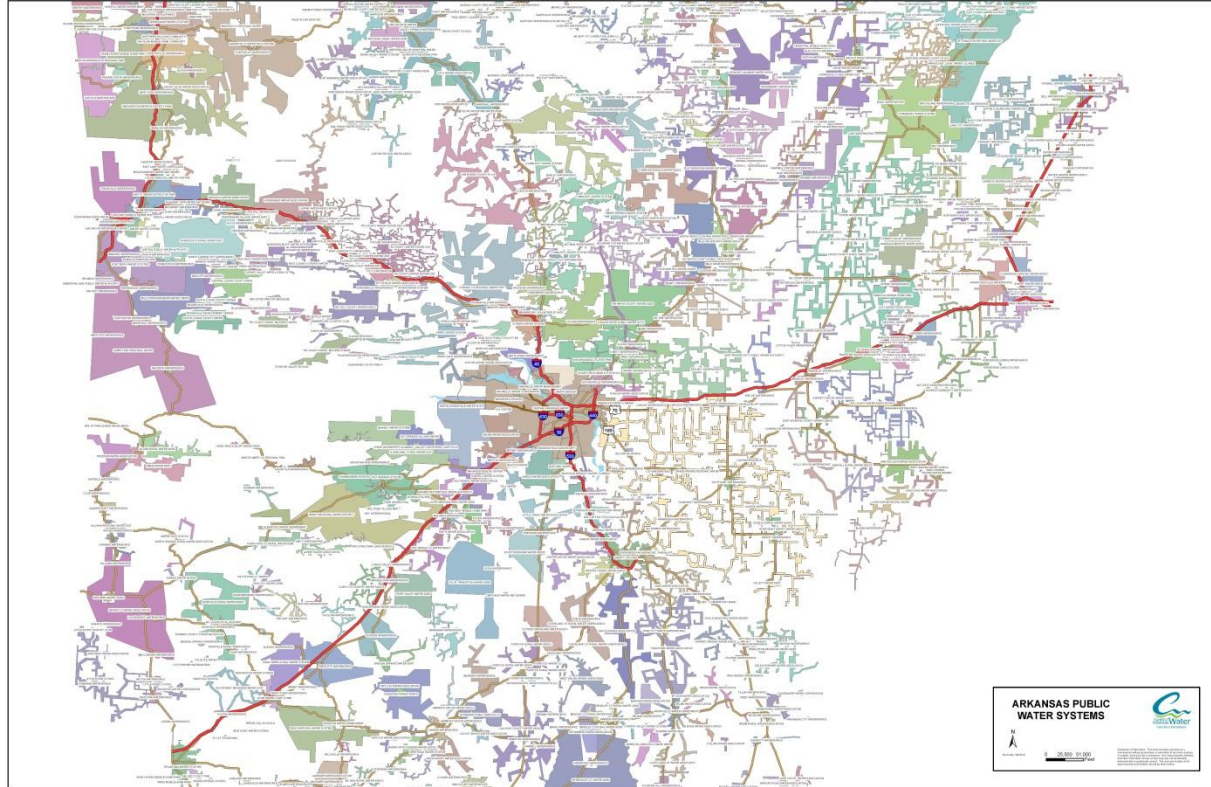


# Water Systems are Targets



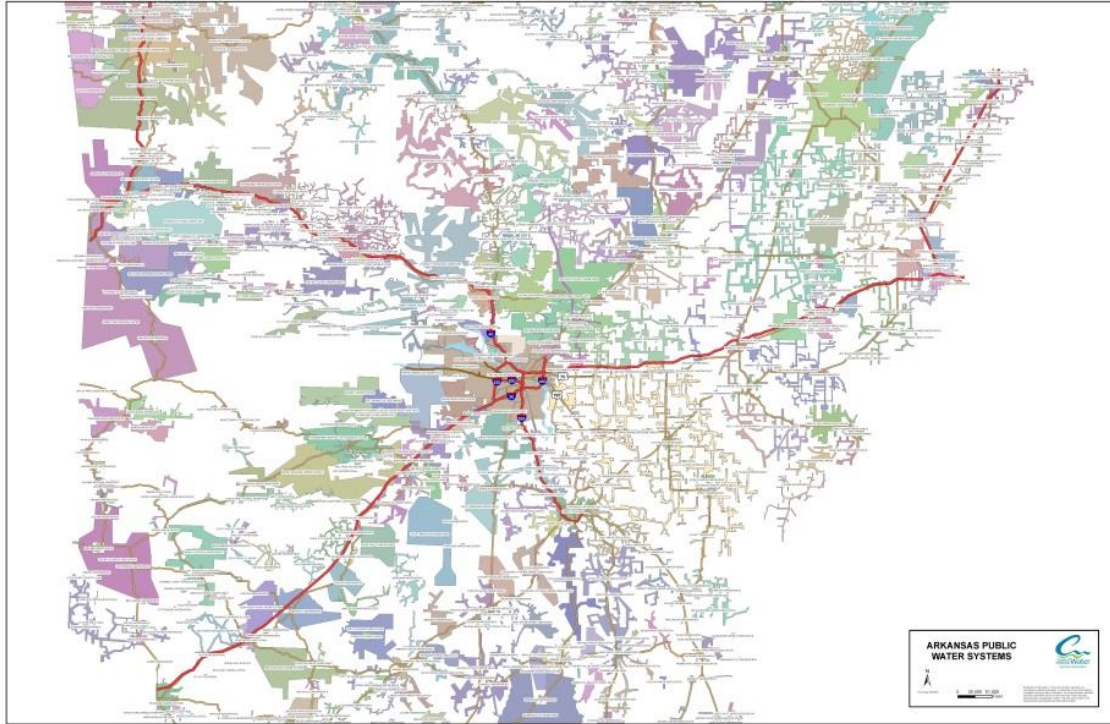
83% serve pop. less than 3,300 people  
55% serve pop. Less than 500 people

# Arkansas Targets





# 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.”

# Cash is readily available!

- 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.

# Cash is readily available!

- The private

- Estimate
  - investm

- Since 20
  - capital

- Over the
  - \$45.06 t
  - acquisit

- Aqua Ar
  - add and
  - Added 1

- Smaller

Purpose:  
Return on Capital  
(shareholder return)

structure

d \$US53B in

as risen from  
\$2.1 billion in

05, and plans to  
imately 3,000,000)

ary.



# Big Business – Follow the Money

- 2 companies privatizing municipal water systems in Illinois gave \$400,000 to state and local politicians



# Big Business – Follow the Money

- 2 c  
priv  
wa  
Illin  
\$40  
and
- Illinois legislature then changed laws to make it easier for stockholder companies to purchase municipal assets using lower valuations & spreading costs over all customers in-state

ATER

A<sup>SM</sup>

# 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



# Big Business – Money Follows

“Initially, it seems like a great deal for the community,” said Bolingbrook Mayor Roger Claar. “The reality is [these communities] get rate increases like they never imagined.”





# Big Business – Money Follows

“Initially, it seems like a great deal for the community,” said Bolingbrook Mayor Roger Claar. “The reality is [these communities] get rate increases like they never imagined.”

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 better than government ownership. Privatization weakens government's ability to regulate and compare water utilities. Privatization point out that privatization saves money. Privatization comes with a cost for short-term projects or O&M.
- U.S. privatization

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.

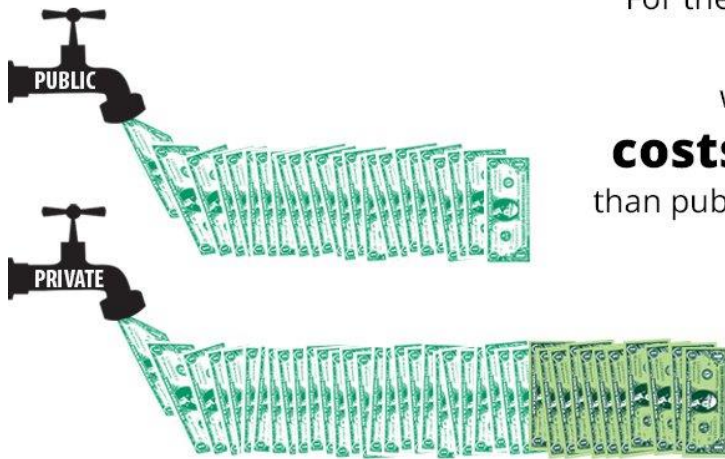
2 of the other 3 are in California.  
(Goleta Water District and Padre Dam Municipal Water District)

# 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

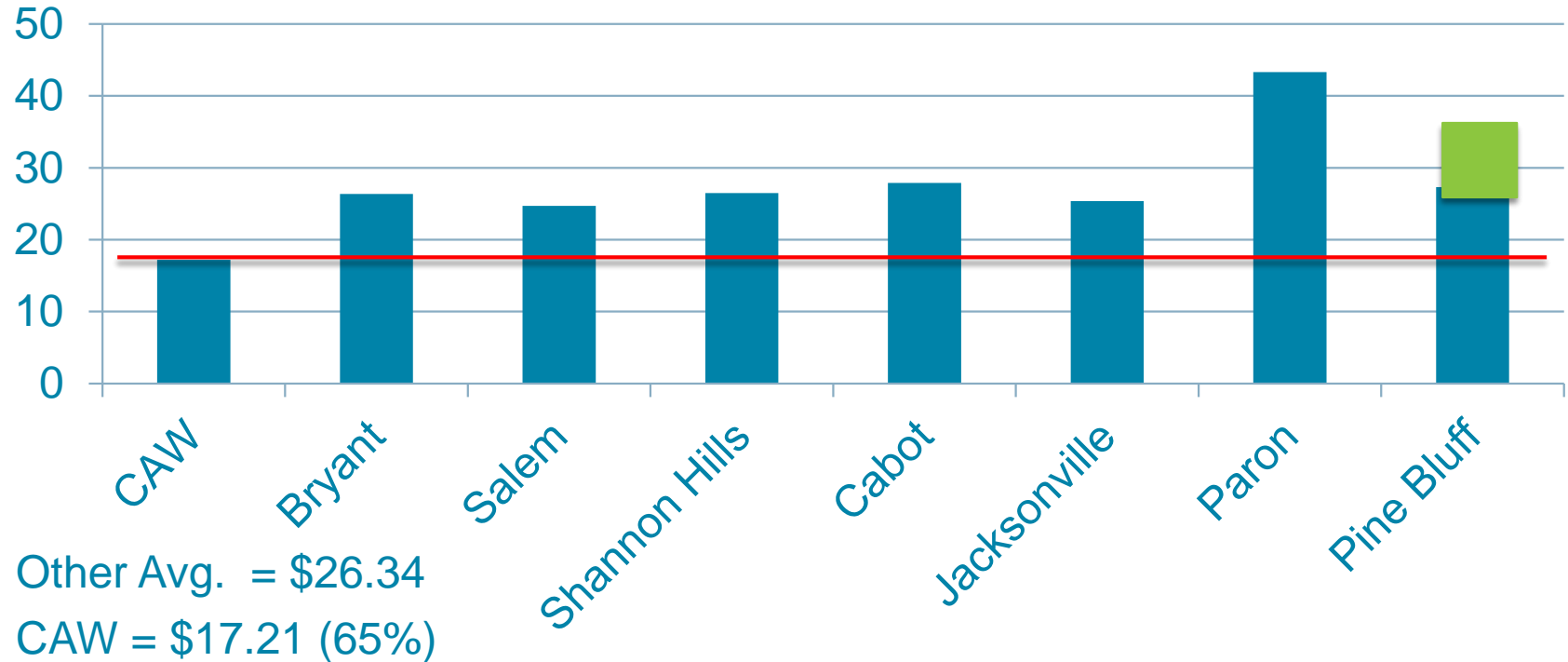
**costs 59% more**  
than public water service —

**about \$185  
each year.**

[www.foodandwaterwatch.org](http://www.foodandwaterwatch.org)



# CAW (2019) vs. Region (2018)



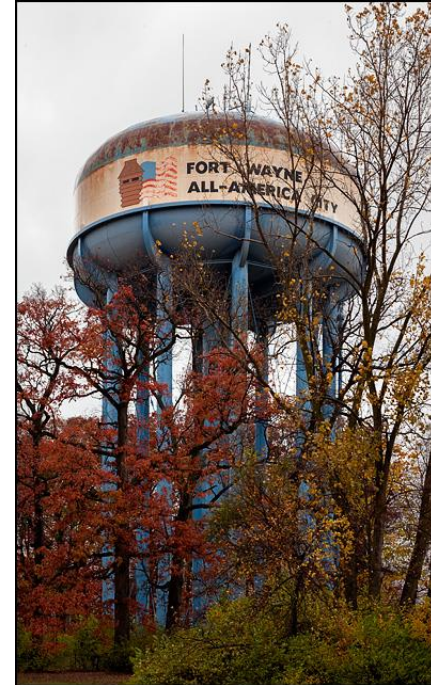
# Privatization Regrets

- 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.



# Privatization Regrets

- 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

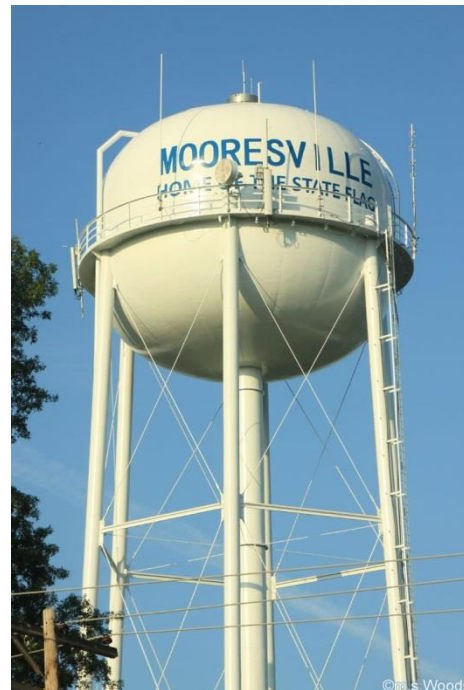
- Payson, AZ – facing 52% rate hike; couldn't block it





# 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.

# Conclusion, Point 1 of 2

“If water is  
essential to life,  
water systems  
are essential to  
civilization.”

*~ David Sedlak, Water 4.0*





# Conclusion, Point 2 of 2



Always Remember,

No matter what,  
the ratepayer always pays!

# #WEARECAW

# QUESTIONS?

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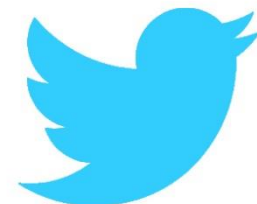
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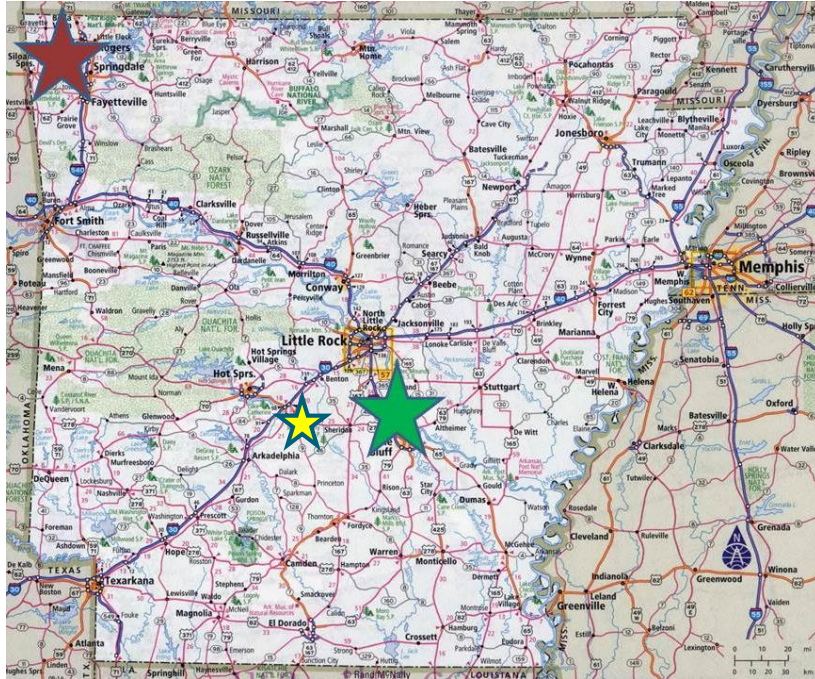
501-377-1345

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Thank you!

# Other Matters to Consider



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

KPIs	CAW	Liberty
O&M Cost/100 Miles of Pipe	\$1,733,335	\$2,051,754
O&M Cost/Customer Acct	\$322	\$516