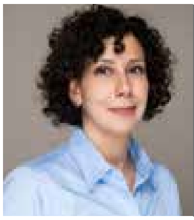
COMMENT

Flint: a watershed moment

The water crisis in Flint, Michigan didn't just show that a developed country can face Third World problems: it proved that safeguarding public health is not a matter of public versus private ownership – but of accountability versus the lack of it



WESTERN FRONT

MONTHLY COMMENTARY FROM INFRASTRUCTURE INVESTOR SENIOR REPORTER KALLIOPE GOURNTIS

"It does not matter who owns the utility, what matters is that the owner – whether public or private – is held accountable"

LAST MONTH, AN e-mail landed in our inbox celebrating Wisconsin's recent decision to shoot down a bill allowing the state to privatise its water and sewer utilities. Citing the lead poisoning that has occurred in Flint, Michigan, the author of the e-mail argued: "The evidence against privatisation is plain as day."

That's funny, because our take is the exact opposite. Learning that it took E. coli, drastically high levels of lead and 18 months for government officials to advise the city's residents to stop drinking the contaminated water makes it blatantly clear, in our view, that investing in the country's water infrastructure is imperative.

If municipalities, which own and operate 85 percent of water and wastewater systems across the US are unable to make the necessary investments – and with the American Water Works Association (AWWA) estimating the country's water infrastructure is facing a $1 trillion gap over the next three decades, the answer to that seems obvious – then it is high time that private capital be allowed to step in and fill that void.

The pushback against privatised water in the US centres around arguments such as 'water is a basic right and an essential service that shouldn't be exploited for profit' and the perception that a private entity will put its bottom line ahead of the public interest.

Water is a basic right, but like healthcare and education, it isn't free. The services water utilities provide require capital. The argument that privately-owned water utilities charge higher rates is also skewed, since studies supporting that claim conveniently ignore other critical factors, such as the level of investment and hidden costs to taxpayers that may not appear on their water bills, but still come out of their pockets.

As a 2014 report by the Water Resources Agency of the University of Delaware Institute for Public Administration points out: "Public purveyors have taxpayer sources of capital and revenue that are assumed by taxpayers, but are not reflected in the water rates."

Another reason the rate argument is misleading is because it's not the private owners who determine how much customers will pay. That is decided by the Public Utility Commission (PUC), a government agency present in every state. The private operator has to prove to the PUC that its costs are justified and its rates are fair.

A great example – but also a rare one in the US – is that of the Bayonne Municipal Utilities Authority (BMUA) and the partnership it entered into with private equity firm KKR and United Water in 2012.

Under the terms of the agreement, the city of Bayonne, in New Jersey, received an up-front payment of $150 million, enabling it to eliminate its existing debt and improve its debt rating for the first time in five years. Since then, KKR and United Water have invested more than $12 million, including the installation of new meters that have helped to detect and reduce water leaks. Before the 40-year contract expires, BMUA's private sector partners will be investing another $100 million, while saving the utility a further $35 million. The cost to BMUA's customers has been a 6.2 percent rate increase between 2012 and 2016.

If one is looking for a key takeaway from Flint's crisis, it's this: it does not matter who owns the utility, what matters is that the owner – whether public or private – is held accountable.

That accountability, as Bayonne demonstrates, can be ensured contractually. BMUA continues to own the water and wastewater systems, utility rates are set based on a mutually agreed formula and the private partners have provided guarantees regarding staffing levels and employment opportunities.

If anything, Flint's water crisis has made it crystal clear that the US water sector needs more such partnerships. ■