

# Has Water Privatization Gone Too Far in New Jersey?



**An independent analysis of New Jersey's expensive and troubling experiences with private water companies**

**food&waterwatch**





## About Food & Water Watch

Food & Water Watch is a non-profit organization working with grassroots organizations around the world to create an economically and environmentally viable future. Through research, public and policymaker education, media and lobbying, we advocate policies that guarantee safe, wholesome food produced in a humane and sustainable manner and public, rather than private, control of water resources including oceans, rivers and groundwater. For more information, visit [www.foodandwaterwatch.org](http://www.foodandwaterwatch.org).

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## **Executive Summary**

Cities and towns across New Jersey have struggled to balance their budgets in the wake of the recent economic downturn that has left them with dwindling revenues and escalating expenses. Meanwhile, public leaders in Trenton have promoted the privatization of public water and sewer utilities as a means of fiscal relief. Both the governor of New Jersey and mayor of Trenton had plans in the works to give private interests control over water systems in the state.

For New Jersey, water privatization is not a new concept. The state has a long history with private water provision and serves as headquarters for two of the country's largest water companies: American Water, based in Voorhees, and United Water, based in Harrington Park.<sup>1</sup> The state's experience with private water service, however, has been marred with failure and disappointment. Consumers frequently report unsatisfactory service and high rates after private entities take over their water systems.

Indeed, New Jersey municipalities will not resolve their fiscal woes by privatizing water and sewer services. Tough economic times require local governments to take swift yet judicious measures to balance today's budget without compromising tomorrow's. As public officials determine how to cut deficits, they must avoid superficial solutions, such as auctioning off water utilities and outsourcing sewer services, which can have lasting consequences.

Water privatization is not a responsible way to shore up local budgets. It can result in greater long-term costs, serious environmental problems and a loss of local control.

## **Key Findings**

The New Jersey State Privatization Task Force was one-sided and unnecessary.

New Jersey is one of the most receptive states to water privatization.

On average, private operation of water systems adds 64 percent, \$153 a year, onto the typical New Jersey household's water bill.

Private water companies have a questionable track record, which includes serving contaminated water in Dover Township and selling developers land that was meant to protect Bergen County water supplies.

Public-public partnerships and a renewed federal commitment to water infrastructure funding are better options for New Jersey municipalities.



## New Jersey's Privatization Task Force

New Jersey Governor Chris Christie believes that privatization of government services can help remedy the state's \$11 billion budget shortfall. In March 2010, he established the New Jersey State Privatization Task Force to determine how to go about that process. Although his stated intention was to relieve state budgetary pressure, Christie did not limit the scope of the task force's study to state operations. Instead, the task force was to assess privatization throughout all levels of government.<sup>2</sup> This included public water and sewer utilities.

Municipal functions, including water provision, have no direct effect on the state budget, so their inclusion in the study implies that Christie created the task force for other reasons in addition to the state's fiscal emergency. Perhaps he even used the budget shortfall as a pretext to pursue privatization.

### *Stacking the deck*

Christie staffed the task force with people who seemed supportive of privatizing water services. At least three of the five members had corporate relationships and experiences that likely predisposed them to endorse privatization, despite any evidence of its negative consequences:

- *Dick Zimmer*, the chair of the task force, is a former Congressional Representative who cosponsored

numerous bills seeking to privatize government services and assets, including the Tennessee Valley Authority, during the 1990s.<sup>3</sup> After leaving Congress, he worked at Gibson, Dunn & Crutcher from 2001 to 2009,<sup>4</sup> during which time, among other things, the company advised governments on infrastructure privatization.<sup>5</sup>

- *Kathleen A. Davis*, the executive vice president of the Chamber of Commerce Southern New Jersey, is a former lobbyist and director of governmental affairs for New Jersey American Water, the state's largest water company.<sup>6</sup>
- *John Galandak* is the president of the Commerce and Industry Association of New Jersey, a statewide business advocate,<sup>7</sup> whose board of directors includes

the president of United Water,<sup>8</sup> the U.S. subsidiary of Suez Environnement, the world's second-largest water corporation.<sup>9</sup>

This selection of like-minded task force members precluded an impartial evaluation. With the task force stacked in favor of privatization, the question was never whether to privatize but how to facilitate it.

### Redundant study about efficiency

New Jersey didn't need another task force to promote privatization. American Water, the nation's largest water company, already considered New Jersey to be very privatization friendly, and the state already had several laws advantageous to privatization projects.<sup>10</sup> Moreover, previous New Jersey governors had conducted similar privatization studies. If Christie wanted to enhance efficiency, he should have avoided such redundancy.

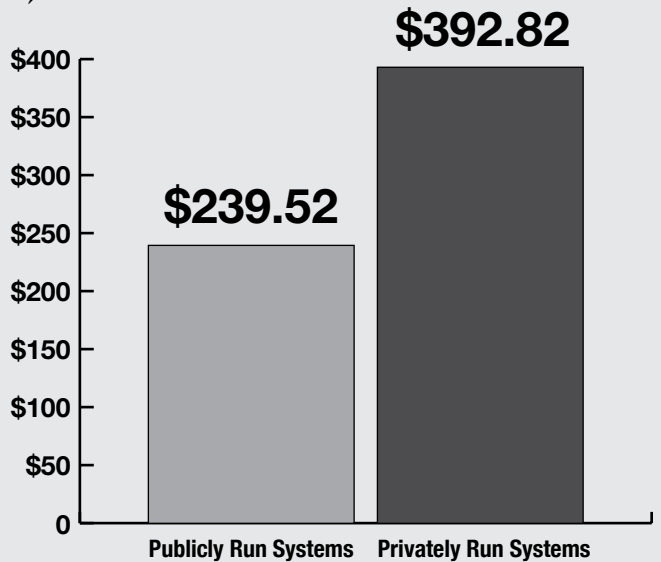
His task force closely replicated an earlier one established by Christine Todd Whitman, his Republican predecessor. In 1994, then-governor Whitman issued Executive Order 17 — Christie's executive order mirrors Whitman's down to the number — that created the New Jersey Advisory Commission on Privatization.<sup>11</sup> After several months of study, the commission recommended privatizing dozens of government services, from airports to sewers.<sup>12</sup> In May 1995, four months after her commission presented its recommendations, Whitman signed the New Jersey Water Supply Public-Private Contracting Act and the New Jersey Wastewater Supply Public-Private Contracting Act, which made it easier for private companies to take control over municipal water and sewer systems.<sup>13</sup>

More than 10 years later, former-governor Jon Corzine also took up the privatization torch, pursuing what he called asset monetization as a way to generate funding. In 2006, his administration hired investment bank UBS to analyze and value the state's infrastructure assets. The results of this study inspired Corzine's disastrous attempt to lease the state's toll roads. The lease proposal, which was essentially dead on arrival, would have increased tolls by as much as 800 percent by 2022, and was met with sharp public opposition.<sup>14</sup> It was so unpopular that during the 2009 gubernatorial race, Christie attacked Corzine for saying he might revisit it.<sup>15</sup>

The 2010 New Jersey Privatization Task Force was one-sided and unnecessary. Cities and towns needed better information to determine if private control of services would reduce costs without sacrificing quality. For the water and sewer sector, the experiences of many municipalities across the state suggest that it will not. In many cases, when private companies run water systems, consumers end up paying more for worse service.

### New Jersey Water Bill Comparison

Average Annual Water Bill for a Household Using 5,000 Gallons a Month



### Paying More for Privatized Water Service

New Jersey residents pay much more if private companies control their water systems. Food & Water Watch surveyed the rates of the 14 largest community water systems in New Jersey and found that, on average, privately run systems charge households 64 percent more than municipal systems charge. A typical household using 5,000 gallons a month pays an extra \$153 a year if its water services are privatized (see Appendix A for more details).<sup>16</sup>

New Jersey American Water, the state's largest investor-owned water utility, has an aggressive rate increase strategy. Over the last two decades, it has raised rates 11 times, for a total increase of 140 percent. From 1990 to 2009, a typical household, using 7,000 gallons a month, saw their annual water bill grow from \$366 (in 2009 dollars) to \$587.<sup>17</sup> In April 2010, the company requested another 13.6 percent increase, which if approved in full, would bring this toll to \$680 a year.<sup>18</sup>

Four Republican members of the New Jersey state legislature — senator Tom Goodwin, senator Phil Haines, assemblywoman Dawn Marie Addiego and assemblyman Scott Rudder — came out against the company's 2010 rate hike. "As I am sure you are aware, many of the residents in my district live on fixed incomes and struggle every month to pay their bills," Goodwin wrote in a letter to the Board of Public Utilities. "This rate increase would put a tremendous strain on their finances, making it more difficult to meet basic needs."<sup>19</sup>

Three other New Jersey State legislators — Senator Christopher Connors, Assemblyman Brian Rumpf and Assemblywoman DiAnne Gove — contested a proposed rate increase of another large water company: United Water Toms River, which serves 125,000 people in Toms River, South Toms River and parts of Berkeley. In November 2009 the company requested a 37 percent rate hike that would increase the average residential water bill by \$158 a year, bringing it to \$554 a year.<sup>20</sup>

The following month, United Water New Jersey petitioned to increase its rates by 21 percent adding \$117 onto the typical household’s annual water bill. The company serves more than 800,000 people in Bergen, Hudson, Hunterdon, Mercer, Passaic and Sussex Counties. If the hike were approved in full, the average residential customer would pay \$697 a year for water service.<sup>21</sup> Lambertville officials opposed the rate request,<sup>22</sup> and Hudson County Freeholder Bill O’Dea and Jersey City Councilmember Steven Fulop chartered a bus giving area residents a free ride to a public hearing about the increase.<sup>23</sup>

“While in our capacities as councilman and freeholder, we have limited ability to stop the increase. Regardless, it is absolutely crucial that we fight United Water and make our voices heard,” said Fulop, as reported by *The Jersey Journal*. “This is nothing more than another backdoor tax on residents that they can’t afford.”<sup>24</sup>

### Expensive loans

The sale or lease of water and sewer systems, in particular, can lead to considerable rate hikes for consumers. When a city cashes out its water assets, the company that takes over the system will recover its payment with interest through customer bills. In effect, the funding that the city receives is an expensive loan that ratepayers must pay off over the term of the lease. It is a circuitous and often expensive way to tax residents.

Former State Senator Leonard Connors (R-Ocean) made a similar observation when he told the *Star-Ledger* why he opposed a 1995 state senate bill authorizing these types of arrangements: “The company getting the lease and leasing the water supply would naturally put the concession money in the rates, so some grubby mayor — and I am a mayor (of Surf City), so I can say this — could balance the budget on the lease. It was basically taxing through the tap.”<sup>25</sup>

For taxpayers, a water system lease merely shifts the burden from one biller (the city) to another (the water company), and private operation of water systems tends to be more expensive than public operation.

Even investment bank UBS, when it conducted Corzine’s asset monetization study, found that New Jersey’s water and sewer systems were “unattractive” candidates for

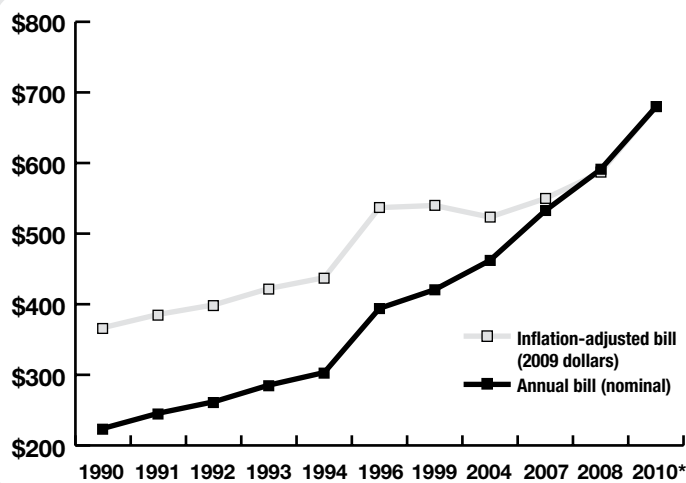
## New Jersey American Water’s Rate Increase History

Date	Percent Increase	Cumulative Increase
June 1990	2.4%	2%
February 1991	9%	12%
March 1992	4.7%	17%
May 1993	5.1%	23%
September 1993	1.2%	24%
November 1994	6%	32%
April 1996	21.4%	60%
March 1999	5.85%	69%
February 2004	9.56%	85%
March 2007	12.5%	109%
December 2008	15.2%	140%
April 2010*	13.6%	173%

\*2010 rate increase pending approval

## The Growing Annual Water Bill of a Typical Household Customer of New Jersey American Water

*Based on an Average Consumption of 7,000 Gallons a Month in the Company’s Main Service Area*



\*2010 rate increase pending approval

privatization. The study determined that because municipal water utilities carry considerable debt and need expensive improvements, a lease or sale would require “meaningful rate increases” to be profitable for investors.<sup>26</sup>

**No competition and no efficiency gains**

Given the high prices charged by privately run water utilities, New Jersey cities and towns should not expect water privatization to reduce operating costs. In fact, empirical evidence indicates that there is no significant difference in efficiency between private and public water production.<sup>27</sup> Germà Bel of the University of Barcelona and Mildred Warner of Cornell University reviewed all econometric studies of efficiency and water privatization from 1976 to 2006 and concluded, “While some studies found public production more efficient, most found no significant differences in costs or efficiency between public and private production.”<sup>28</sup>

Although market forces may be able to enhance efficiency and reduce costs in other sectors, the water industry is different. Water pipes and treatment plants are so expensive that it is economically impractical for multiple water providers to serve the same community.<sup>29</sup> Because of the industry’s monopolistic nature, water companies experience competition only during the bidding process. Once a contract goes into effect, the new private operator has a captive customer base.

Competition for contracts also is increasingly limited.<sup>30</sup> There are few private water businesses,<sup>31</sup> and Suez and Veolia, both French multinationals, dominate the international market.<sup>32</sup>

Researchers warn that a lack of competition can lead to excess profits and corruption in private operations.<sup>33</sup>

**Additional costs**

In many cases, privatization increases costs. Corporate profits, dividends and income taxes can add 20 to 30 percent to operation and maintenance costs.<sup>34</sup> The process of privatizing water systems is complicated, expensive and time-consuming,<sup>35</sup> and monitoring costs can be substantial.<sup>36</sup> For small municipalities, transaction costs can be prohibitively high,<sup>37</sup> and for very large regional wastewater treatment systems, the U.S. Environmental Protection Agency said, “the process may become so complex that it would be difficult to implement.”<sup>38</sup>

In total, contract monitoring and administration, conversion of the workforce, unplanned work, and use of public equipment and facilities can increase the price of a contract by as much as 25 percent.<sup>39</sup> Other hidden expenses, including change orders and cost overruns, can further inflate the price of private service.

**Service and Environmental Problems**

Water privatization affects not only consumers’ pocketbooks; it can also degrade customer service and the environment. A Food & Water Watch survey of 10 water and sewer systems found that after privatization, the new private managers reduced the workforce by one-third, on average. As a result, service often suffered and backlogs of work orders often accrued.<sup>40</sup>

When private operators attempt to cut costs, practices they employ could result in worse service quality.<sup>41</sup> In certain cases, private operators even have a financial incentive to ignore basic upkeep and drive up the cost of capital improvements. Such neglect can hasten equipment breakdowns and increase replacement costs, which are usually the responsibility of the municipality. In many contracts, private operators can technically comply with their contract terms while effectively shifting upkeep costs to the local government.<sup>42</sup>

A report published by the National Rural Water Association found deterioration of water systems can be “particularly problematic” in long-term contracts.<sup>43</sup> Because 70 to 80 percent of water and sewer assets are underground, a municipality cannot easily monitor a contractor’s performance. Consequently, as a researcher for the Global Water Partnership Technical Advisory Committee warned, “The effects of shoddy work may not become evident during the contracting period.”<sup>44</sup>





### ***The wrong incentives***

Selling water systems can result in a different set of problems. When private companies operate publicly owned water systems, they usually drive down costs by cutting corners to boost profits, but when they own water systems, they have the opposite desire. The New Jersey Board of Public Utilities regulates privately owned water systems and determines the rates these companies can charge their customers based in part on how much the companies invest in the systems. Investor-owned water utilities therefore have a financial incentive to build costly infrastructure projects. Water companies use greater infrastructure investment to justify higher rates, which then lead to higher earnings.<sup>45</sup>

Water companies usually have little incentive to encourage water efficiency. In most situations, when water use falls, their revenues similarly decline, so it makes little business sense for them to tell their customers to consume less water. When faced with dwindling water resources, private utilities may prefer to seek out new water supplies, which require costly investments that augment their long-term profits, rather than implement water conservation programs.<sup>46</sup>

For similar reasons, private ownership of water and sewer utilities facilitates sprawl. Private utilities profit from costly sprawling systems, whereas municipalities often do not want to spend public resources to serve areas outside their tax base. In fact, several cities use the provision of water and sewer services as a way to promote smart growth. As a result, real-estate developers frequently partner with water companies to serve new satellite developments.<sup>47</sup>

Sprawling development can harm the water supply because it changes the natural landscape. When rain hits hard pavement instead of dirt, it cannot filter naturally into the ground and recharge the underground aquifers that supply water to wells, rivers, lakes and streams. Instead, it is often diverted into storm drains and discharged into surface waters.<sup>48</sup> This can strain local drinking water sources that rely on groundwater. It can also lead to sewer overflows if too much stormwater enters the sewers and overloads the pipes.<sup>49</sup>

### **Loss of Local Control**

As is evident in the aforementioned sections, when local governments privatize their water systems, they abdicate local control over a valuable public resource. In the case of leases and sales, they no longer determine water rates or capital improvement plans, which affect water quality and access to water. Because a water corporation has different goals than a city does, it will make its decisions using a different set of criteria, often one that emphasizes profitability. This has important equity and environmental implications.<sup>50</sup>



Because water service is a natural monopoly, consumers can exercise choice only at the ballot box through the election of the public officials who oversee their utility.<sup>51</sup> When local governments privatize their water systems, the public loses its ability to choose. Community members do not have access to the boardroom of water companies.

In addition, privatization can be difficult to reverse. After selling a water or sewer system, a municipality often cannot undo the decision and reclaim its water resources without lengthy and costly eminent domain proceedings.<sup>52</sup> With leases and other contractual arrangements, municipalities are bound by the terms of the contract and cannot choose another service provider for the full duration of the deal. Under most circumstances, assuming no violation of contract provisions, a city can exit the contract early only by paying a substantial termination fee to the water company.

New Jersey municipalities can best protect the public interest by avoiding water privatization schemes.

## New Jersey Experiences in Water Privatization

The following case studies exemplify the myriad problems experienced by cities and towns across New Jersey when private companies operated their water and sewer systems.

### *Childhood cancer in Dover Township*

A federal and state investigation found an association between childhood cancer and contaminated drinking water served by United Water Toms River.

In 1996, a state report uncovered that Dover Township in southern New Jersey had significantly higher rates of certain types of childhood cancers.<sup>53</sup> After a massive five-year study, state and federal investigators linked drinking water from a specific United Water Toms River well field to leukemia in girls — the small sample size, however, precluded unambiguous conclusions.<sup>54</sup>

Five days before the study was released, United Water Toms River and two chemical companies agreed to make undisclosed multimillion-dollar payments to 69 families of children with cancer. Several months later, United Water and one of the chemical companies reached another monetary settlement with dozens of other families. In total, United Water paid \$12 million, after insurance reimbursements, to settle the \$800 million claims for wrongful death and injury. Throughout the process, the company admitted no wrongdoing, but the families accused it of serving contaminated drinking water that caused the children to develop cancer.<sup>55</sup>

Water problems continued in Dover. In 2005 the state Department of Environmental Protection fined United Water Toms River \$104,000 for using too much water and constructing main extensions without a state permit.<sup>56</sup> The next year, the company received a \$64,000 fine for failing to notify the state and the public when the water contained illegally high levels of radionuclides. The state later determined that the company's operators manipulated drinking water tests to conceal potential quality violations.<sup>57</sup>

### *High bills in North Brunswick*

High water bills are a common complaint after the lease or sale of a water utility. For example, in 1996, North Brunswick leased its water and sewer systems to a private company (now owned by United Water) that agreed to pay the town a total of \$54 million over the term of the contract.<sup>58</sup> Six years into the 20-year deal, after meter changes doubled or tripled the bills of many households,<sup>59</sup> the town exited the water portion of its contract by buying out the remaining 14-year term at a cost of \$30 million.<sup>60</sup>



"It's become a model for the way not to do such deals," David Spaulding, the mayor at the time, told the *Star-Ledger*, adding, "The people saw themselves getting screwed."<sup>61</sup>

United Water continued to run the sewer system until 2006,<sup>62</sup> when the town council unanimously voted to terminate the contract and manage the sewers itself.<sup>63</sup> Public operation saved the town \$140,000 in 2007.<sup>64</sup>

### *A scathing audit in Camden*

Camden encountered numerous problems after transferring operation of its water and sewer systems to United Water (formerly U.S. Water).

In 2009, 10 years into the 20-year, \$178 million deal, the New Jersey State Comptroller's Office issued a scathing audit of Camden's privatization contract. It found that inadequate contract supervision and the company's poor performance cost the city millions of dollars and potentially jeopardized the health and safety of its residents.<sup>65</sup>

The audit found that between 2004 and 2008 the water utility lost nearly half (45 percent) of its water, likely through leaks, storage overflows and other errors. By exceeding the

10 percent maximum established in its contract, the company cost Camden about \$1.7 million in lost revenue.<sup>66</sup> Adding to this cost, the company received at least \$6 million in pass-through and other payments without proper city approval. This includes \$2.2 million associated with a proposed contract amendment that the city never approved.<sup>67</sup>

Inadequate upkeep of water tanks, wells, fire hydrants and other equipment posed potential health and safety risks to consumers, according to the audit. United Water could not account for every utility asset and failed to complete required maintenance projects.<sup>68</sup>

The comptroller also documented numerous billing issues. United Water's failure to calibrate meters could have caused over-billings, and in 2008, the city had to write off more than \$1 million in unsubstantiated fees resulting from incorrect rates, inaccurate estimates and unreliable meter readings. The company lacked an adequate information system to track account data properly, and partly because of the company's inadequate collection efforts, at the beginning of 2009, the utility had \$4.5 million in unpaid customer bills that were at least 90 days old.<sup>69</sup>

Although the company disputed many of the audit's findings, the city agreed with every recommendation. At the end of 2009, Camden sought to recover \$28.9 million from United Water for poor performance, unauthorized payments and credits for capital projects conducted by the city, among other things.<sup>70</sup> In January 2010, the company responded by suing Camden for \$5.7 million in alleged back payments.<sup>71</sup> The situation remains unresolved.

### A public victory over a flawed sale in Trenton

In 2010 Trenton residents rebuffed a proposal to sell part of their water system.

Three years earlier, in 2007 Trenton officials signed a contract to sell a majority of the city's water infrastructure — the pipes and structures located in the outlying communities of Ewing, Hamilton, Hopewell and Lawrence Townships — to New Jersey American Water.<sup>72</sup> From the deal, the city expected to receive \$80 million, about half of which would have gone towards paying off water-related debt. Trenton planned to use the remaining proceeds to cover immediate budget deficits, likely depleting the windfall within a couple years.<sup>73</sup>

It was a shortsighted approach. Selling the system would not address the underlying structural reasons for the city's budget deficit, and it could worsen the city's long-term fiscal health because the city would lose annual revenue from the water fund. From 2007 to 2010, the city spent \$15 million of its water funds on general city services.<sup>74</sup>

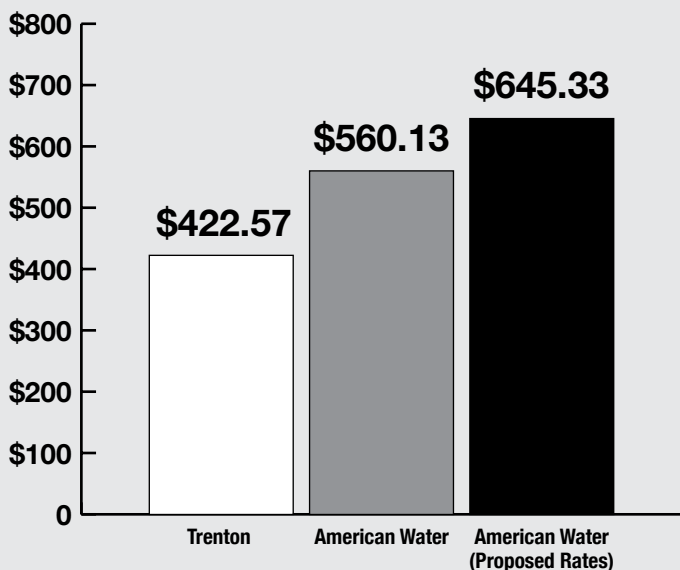
In addition, the financial viability of Trenton's water system would have depended on continued bulk water sales to New Jersey American Water, which as part of the deal, agreed to use city water to meet the needs of the outlying communities for at least 20 years.<sup>75</sup> If American Water were to stop buying water from the city, Trenton households would likely have faced rate increases to help offset the lost revenue.

For the affected suburban towns, rate hikes seemed inevitable if the sale had occurred. New Jersey American Water planned to incrementally increase their rates to the level charged in its main service area.<sup>76</sup> As a result, the typical household using 7,000 gallons a month would have seen their water bills increase by 33 percent, or \$138 a year. This difference likely would have grown over time, given that the company usually increases its rates every two years. Its 2010 rate request, if approved in full, would add about another \$85 to the typical annual household bill, bringing it to a total of \$645. In comparison, customers of Trenton Water Works pay only \$423 a year for the same amount of water.<sup>77</sup>

A group of residents, recognizing the faulty logic of the sale, contested the deal and petitioned to bring the issue to the public for a vote. Trenton officials, led by then-Mayor Douglas Palmer and backed by New Jersey American Water, unsuccessfully fought their efforts. The state Supreme Court ruled in favor of the petitioners supporting their right to seek a citywide referendum.<sup>78</sup>

Immediately after the court decision, New Jersey American Water ramped up an aggressive campaign under the name The Committee for Trenton Yes to sway residents to support the sale. In six weeks of campaigning, the company spent at least \$845,000 — more than 15 times the amount spent by Stop the Sale, the local anti-sale group aided by Food & Water

**Typical Annual Household Water Bill Based on an Average Household Water Use of 7,000 Gallons a Month (May 2010)**





Watch. Despite the company's heavily funded operation, on June 15, 2010, Trenton voters overwhelmingly rejected the sale by a margin of nearly 4-to-1.<sup>79</sup> David beat Goliath.

***Watershed destruction in Bergen County***

Water companies have sold land protecting water supplies to developers. These deals may produce short-term gains for stockholders but they have long-term consequences for residents who could have to pay for treatment plants that otherwise would not have been necessary. By creating a natural buffer from pollution, forested land protects water supplies, improves water quality and reduces drinking water treatment costs.<sup>80</sup>

In the 1980s, United Water transferred about 600 acres of land, originally acquired to protect the water supply in Bergen County, to its real estate development subsidiary, which planned to resell the land to developers.<sup>81</sup> The company reaped substantial profits from these land deals. In one instance, two months after buying 23 acres of land from the water utility, the real estate subsidiary resold it at a 400 percent profit. This didn't translate into lower water bills for United Water's customers, who each received only a one-time \$18 payment for the entire 600 acres of former watershed land. In fact, at the time, the company charged the state's highest water rates.<sup>82</sup>

United Water's dealings with developers triggered the Watershed Protection Act, a 1988 state law that requires state approval before utilities can convey watershed land for any

purpose other than protecting public water supplies. This law delayed but did not stop the company's plans.<sup>83</sup>

Environmentalists actively opposed the company's land sales, challenging some in court and picketing the company's annual stockholder meetings.<sup>84</sup> In 2007, after environmental groups forced New Jersey to conduct a three-year state investigation into its land deals, two top state officials said that United Water likely broke the Watershed Protection Act by allowing developers and private individuals to use land meant to protect the reservoirs. A state panel did not fine the company but told it to settle with the environmentalists.<sup>85</sup>

Two years later, United Water entered into an agreement with Hackensack Riverkeeper and Bergen Save the Watershed Action Network to preserve more than 3,000 acres along the company's reservoirs to redress the company's 165 violations of the Watershed Protection Act.<sup>86</sup>

**A Public Solution**

New Jersey faces a fiscal emergency that warrants responsible solutions — not quick fixes that could leave the state worse off in the long run. For that reason, New Jersey cities and towns should not pursue the privatization of water and sewer systems as a way to relieve budgetary pressure. Privately run water utilities have a bad track record in New Jersey. From Bergen County to Camden, communities across the state have experienced the consequences of water privatization. After private companies take over water and sewer systems, many consumers have seen their water bills climb and their service decline.

Publicly run water services can often offer better environmental outcomes at a lower cost. For additional savings and service improvements, municipalities can partner together through public-public partnerships to share resources and expertise. Intermunicipal cooperation, interlocal agreements and bulk purchasing consortiums can enhance service quality and reduce costs while allowing communities to retain local control.<sup>87</sup> Researchers have found that public-public partnerships are more equitable than privatization, particularly for rural municipalities, which often lack access to private contractors, making market failure common.<sup>88</sup>

Public-public partnerships may not be enough for some communities to make the expensive improvements necessary to protect water resources. The country also needs a dedicated source of federal funding through a clean water trust fund to help municipalities renovate their water infrastructure. A renewed federal commitment can help ensure that every New Jersey resident has access to safe, clean and affordable water service.

## Appendix A

Food & Water Watch surveyed every community water system serving more than 100,000 people in New Jersey. The U.S. Environmental Protection Agency (EPA) classifies these systems as “very large.”

Based on the EPA’s Safe Drinking Water Information System’s annual inventory of public water systems, New Jersey has 15 very large community water systems, 14 of which were included in this rate comparison. The New Jersey District Water Supply Commission – Wanaque North water system was excluded because it serves municipalities.

Private entities — American Water, United Water and Middlesex Water — own eight of the 14 surveyed systems, with local governments owning the rest. In addition,

American Water runs one publicly owned system, Liberty Water Company, and United Water runs another publicly owned system, the Jersey City Municipal Utilities Authority.

For each system, water rate schedules were found on the utility’s website. Additionally, Food & Water Watch called the Newark Water Department and the Jersey City Municipal Utilities Authority to verify their rates.

Using these rate schedules, Food & Water Watch calculated the monthly bill for a household using 5,000 gallons a month with a standard 5/8-inch meter. For computing New Jersey American Water rates, household customers were assumed to be nonexempt from the state water tax.

	Water System Name	Status	Residential Population	Fixed Monthly Rate (5/8" meter)	Volumetric Rate				Total Monthly Bill	Annual Bill	Effective Date of Rate	Notes
					Dollars	Per	Units	Rate for 5,000 gallons				
PUBLIC	Atlantic City Municipal Utility Authority	Publicly owned and operated	150,000	\$8.23	\$2.42	100	cf	\$16.19	\$8.23	\$98.80	1-Jan-10	Allowance of 2500 cf/quarter included in fixed rate
	Newark Water Department	Publicly owned and operated	273,000	\$-	\$22.26	1,000	cf	\$14.88	\$14.88	\$178.54	1-Jan-10	
	Passaic Valley Water Commission	Publicly owned and operated	314,900	\$17.01	\$1.52	100	cf	\$10.16	\$27.17	\$326.04	1-Jan-10	
	Trenton Water Works	Publicly owned and operated	205,000	\$15.41	\$21.16	1,000	cf	\$14.14	\$29.56	\$354.68	4-Sep-08	
	<b>Public Average</b>									<b>\$239.52</b>		
PRIVATE	Jersey City Municipal Utility Authority (United Water)	Publicly owned, privately operated	229,000	\$6.07	\$3.45	100	cf	\$23.06	\$29.13	\$349.56	1-Jan-10	
	Liberty Water Company (American Water)	Publicly owned, privately operated	110,002	\$9.00	\$4.58	1,000	gal	\$22.89	\$31.89	\$382.71	8-Dec-08	
	Middlesex Water Company	Privately owned and operated	233,376	\$11.33	\$30.29	1,000	cf	\$20.24	\$31.57	\$378.87	17-Mar-10	
	New Jersey American Water – Raritan System	Privately owned and operated	609,387	\$9.00	\$4.62	1,000	gal	\$23.11	\$32.11	\$385.28	8-Dec-08	Service area 2, nonexempt
	New Jersey American Water - Coastal North System	Privately owned and operated	343,078	\$9.00	\$5.38	1,000	gal	\$26.91	\$35.91	\$430.95	8-Dec-08	Service area 1, nonexempt
	New Jersey American Water - Ocean City System	Privately owned and operated	155,071	\$9.00	\$5.38	1,000	gal	\$26.91	\$35.91	\$430.95	8-Dec-08	Service area 1, nonexempt
	New Jersey American Water	Privately owned and operated	217,230	\$9.00	\$5.38	1,000	gal	\$26.91	\$35.91	\$430.95	8-Dec-08	Service area 1, nonexempt
	New Jersey American Water – Western Division	Privately owned and operated	253,045	\$9.00	\$5.38	1,000	gal	\$26.91	\$35.91	\$430.95	8-Dec-08	Service area 1, nonexempt
	United Water New Jersey	Privately owned and operated	773,458	\$5.68	\$4.40	1,000	gal	\$21.98	\$27.66	\$331.96	3-Apr-09	
	United Water Toms River	Privately owned and operated	123,184	\$5.90	\$5.09	1,000	gal	\$25.44	\$31.34	\$376.04	11-Nov-09	
	<b>Private Average</b>									<b>\$392.82</b>		
<b>COMPARISON: How much greater are the rates of privatized systems than those of public systems?</b>												
<b>Difference</b>									<b>\$153.31</b>			
<b>Percent Greater</b>									<b>64%</b>			

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