

Reading's Water Lease and the Costs of Privatization

Fact Sheet • May 2014

The Reading City Council is considering opening up the city's water system to privatization. The city council president wants to allow for-profit, private water companies to bid on a long-term lease to take over the water services for decades.¹ This is a risky and potentially very costly ploy to raise some quick funds to cover part of the city's budget shortfalls and liabilities. While Reading's fiscal difficulties are serious, the city must address them directly and avoid budget gimmicks like water privatization that will increase costs for generations of Reading residents.

Taxing Through the Tap

"There are no free lunches."² Households and local businesses will ultimately pay the price of any funds that the city receives from a long-term lease of the system. Consumers simply pay for it with interest through their water bills instead of their property taxes.³ Because a long-term lease allows the city to raise water revenue to pay for general city services, in effect, it taxes households and businesses through the tap.⁴

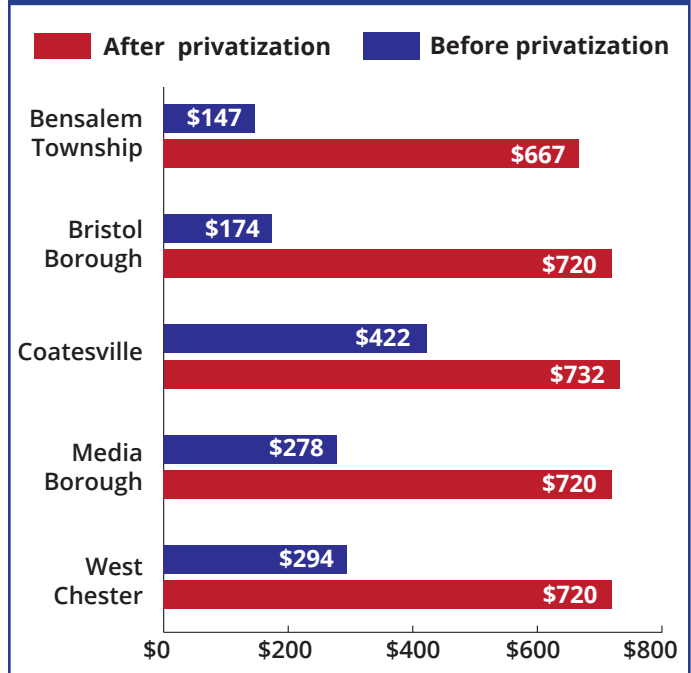
Rate Hikes

Reading should expect larger rate increases if it leases its water system to a private company.⁵ Because privatized water systems generally are no more efficient than publicly run ones,⁶ a private operator must cut services or hike rates to meet its profit goals.⁷ For example, since private companies took over the five largest privatized water systems in Pennsylvania, household water bills have more than tripled on average after accounting for inflation (see table and figure). Based on the experience of other cities, for Reading, a complex formula in the lease contract would likely determine the severity of the rate hikes.⁸

Expensive Financing

If Reading leases its water system to a private company, the utility would lose access to low-cost, tax-exempt government borrowing, increasing the utility's financing costs and forcing the utility to retire its outstanding debt⁹ of about \$95 million.¹⁰

Typical Annual Water Bills Before and After Privatization (For Households Using 54,000 Gallons a Year, Adjusted for Inflation, Constant 2014 Dollars)



In its place, the private operator would use private financing (a mix of corporate debt and equity), which typically costs 7.5 percent to 14 percent or higher.¹¹ In comparison, the Reading Area

Rate Hikes Following the Privatization of Large Pennsylvanian Water Systems^A (as of May 2014)

Municipality (Seller)	Corporation ^B (Buyer)	Date of Sale	Typical Annual Household Bill (inflation-adjusted Jan. 2014 dollars) ^C		Increase (inflation-adjusted Jan. 2014 dollars) ^C	
			Before (Public)	After (Private 2014)	Increase	Percent Increase
Bensalem Township	Aqua America	1999 ¹⁹	\$105 ²⁰ (\$147)	\$667 ²¹	\$562 (\$520)	537% (354%)
Bristol Borough Authority	Aqua America	1997 ²²	\$120 ²³ (\$174)	\$720 ²⁴	\$601 (\$546)	503% (313%)
City of Coatesville Authority	American Water	2001 ²⁵	\$320 ²⁶ (\$422)	\$732 ²⁷	\$412 (\$309)	129% (73%)
Media Borough	Aqua America	1995 ²⁸	\$181 ²⁹ (\$278)	\$720 ³⁰	\$539 (\$442)	297% (159%)
West Chester Area Municipal Authority	Aqua America	1998 ³¹	\$205 ³² (\$294)	\$720 ³³	\$515 (\$426)	251% (145%)
Average					\$526 (\$449)	343% (209%)

A Increases in typical annual household water or sewer bills for the five largest Pennsylvania municipalities that sold their water or sewer systems to for-profit companies since 1990.

B Current parent company.

C Inflation-adjusted to January 2014 dollars, based on the Consumer Price Index.

Water Authority's tax-exempt revenue bonds have interest rates of 2.1 percent to 5.25 percent.¹² Consequently, a long-term lease to a private company would force the utility to refinance the system's existing debt¹³ at a higher interest rate while increasing the cost of future capital improvement projects. Consumers would foot the bill for this financial imprudence.

Impaired Service

Over a long-term lease, the water system could deteriorate,¹⁴ and the private operator could cut corners to increase its profits at the public's expense. A private operator may attempt to cut costs by downsizing the workforce and scaling back employee benefits. These practices could worsen customer service. Downsizing can slow responses to service requests and emergencies,¹⁵ and scaling back compensation can impede the utility's ability to attract qualified operators.¹⁶

Trapped for Decades

Privatization could interfere with Reading's ability to respond to changing circumstances and to protect the area's water quality. Long-term leases with private companies are complex transactions, and the contract language can make it difficult for the city to compel significant changes, including certain improvement or water supply projects, or to exit the deal early.¹⁷ Over a long-term lease, residents will have little recourse when the private operator performs poorly or fails to address their concerns.

Fiscally Irresponsible Gimmick

Privatizing the water system will not reduce liabilities or address the reasons why the city's general fund is unbalanced. Rather, the lease would just dig the hole deeper, increasing the total debt burden while pushing it off budget and onto generations of water users.¹⁸

Stop the City Council From Opening Up the Water System to Privatization

Reading faces some tough fiscal decisions to balance its budget. While these decisions are understandably daunting, city officials must rise to the challenge and face the issue head-on in an open and transparent manner. They must avoid budget gimmicks like leasing the water system to a private company, which merely creates the illusion of balanced budgets while increasing future costs for households and local businesses. Instead of mortgaging its water resources and sacrificing local public control over a vital service, Reading needs a real solution that fosters financial sustainability. Reading should keep local public control of its water system.

Take Action

Act now to stop a private takeover of one of your most valuable public resources — your water. Tell the city council not to lease your drinking water system to a private company.

Endnotes

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