

Issue Brief • October 2014

addonfield should retain local public ownership of its water resources to best protect the interests of consumers and the environment. On November 4, 2014, borough voters will decide whether to sell their water and sewer systems to New Jersey American Water,¹ a subsidiary of the nation's largest water utility corporation.² This is a major, irrevocable decision that will affect the quality, security and cost of water services for generations of Haddonfield residents.

Loss of local, public control

By selling its water and sewer systems, the borough will sacrifice local public control over services that are essential for public health and well-being. Elected officials will no longer oversee the utility and will no longer make the big decisions that determine the cost and quality of service. The borough will no longer set water and sewer rates and will no longer decide the type and timing of system improvements. Instead, New Jersey American Water would make investment decisions based on profitability and will seek rates to recover its costs with profit under the supervision of appointed state regulators.³

Water service is a natural monopoly.⁴ If the utility company increases rates dramatically or if service quality deteriorates, a customer cannot simply select another provider without moving to another community. However, consumers can exercise their power at the ballot box when elected officials oversee their utilities. If borough residents disagree with a decision that a commissioner makes about their service, they can vote

the official out of office and elect someone more responsive to their concerns. By selling the water and sewer systems, residents will lose that ballot-box accountability over these essential services.

Loss of public transparency

A sale will reduce the level of openness and transparency in the functioning of the water and sewer systems.⁵ Unlike the borough, whose clerk responds promptly to requests for public records,⁶ New Jersey American Water is not subject to the state's Open Public Records Act,⁷ and has no legal responsibility to respond to many data requests from customers.⁸ During rate cases, the company must provide information to regulators about its finances and performance. Individuals can file public records requests to the Board of Public Utilities to access some of those documents, but the regulated utility companies can seek to classify certain information as confidential to shield it from public disclosure.⁹

In practice, this loss of transparency can have consequences. For example, the West Virginia arm of American Water has fought the disclosure of information about its preparedness for and response to a chemical spill that contaminated the drinking water for 300,000 people in its service area. The Company can take offense, the state's deputy Consumer Advocate said in reply to West Virginia American Water's withholding, but

Figure 1. Annual Water and Sewer Bills for a Household Using 58,000 Gallons a Year, as of July 2014 \$3,000 \$2,606 \$2,500 \$2,000 \$1,500 \$1,124 \$1,000 \$587 \$500 \$0 Haddonfield Max. Min. New Jersey American Water the facts in the public domain so far are that the Company took no steps to prepare for the possibility of a water crisis such as occurred on Jan. 9, 2014 and how to respond to [the] same. None."¹¹ State regulators ruled that the company must disclose some but not all of the requested documents.¹²

Loss of local, responsive customer service

Instead of staffing the system with people who live and work in the borough, New Jersey American Water proposes to use field staff based in Delran and customer service call centers in Illinois and Florida.¹³ This could slow response times to customer service requests, especially since American Water is downsizing its support staff at its call centers.¹⁴ The borough indicated that after the sale, service "may not be quite as timely as it is now."¹⁵

American Water's customer service and billing practices have been a source of frustration for many residents and local businesses nationwide. For example, the manager of an Ortley Beach motel said that New Jersey American Water gave him the "runaround" for months when he disputed a \$3,588 bill for a period when his motel was closed; only after he reached out to the press did the company identify that the meter was broken and credit his account. 17

In Monterey County, Calif., numerous California American Water customers have reported unexplained, excessively high water bills and have had difficulties getting the company to resolve the issues. Because of the volume of complaints, the local newspaper has a whole section of its website dedicated to customer billing experiences with the company.¹⁸

5/8-inch Meter Using 58,000 Gallons a Year (July 2014)					
	Drinking Water	Wastewater	Total \$58 7 ²⁷		
Haddonfield	\$413	\$174			
	\$525 ²⁸	Min – \$599 ²⁹ (Lakewood Township)			
New Jersey American Water*	(service area 1)	Max – \$2,081³º (Tewksbury Township)	\$1,124 to \$2,606		
Difference	\$113	\$424 to \$1,907	\$537 to \$2,019		
Percent More	27%	244% to 1094%	91% to 344%		

Annual Water and Sewer Rill for a Metered Household with

^{*}New Jersey American Water consolidates its water rate divisions, so that communities across the state have the same rate structure, but its sewer rates vary by location. This comparison uses the company's lowest sewer charge (in Lakewood Township) and the highest metered sewer charge (in Tewksbury Township) to illustrate the range of bills. The flat fee for unmetered sewer service is even higher than the metered charge in Tewksbury Township.



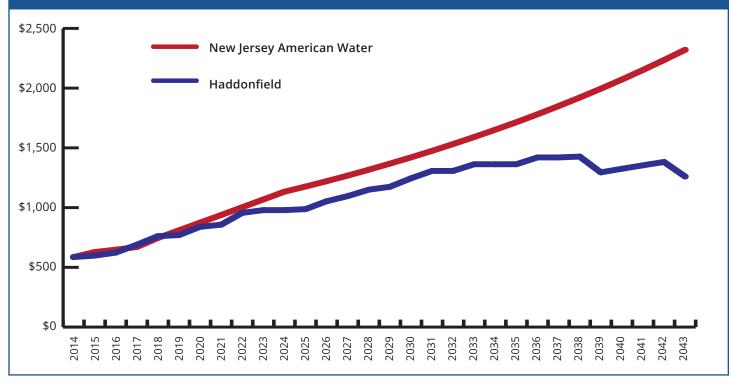


Table 2. Current Fixed Water Charges for Households with a 5/8-inch Meter, as of July 1, 2014					
	Water Service Charge	Distribution System Improvement Charge (DSIC)	Annual Fixed Fees		
New Jersey American Water's Main Service Area	\$10.60 a month ³⁹	\$2.28 a month ⁴⁰	\$154.56		
Haddonfield Borough	\$12.50 a quarter ⁴¹		\$50.00		

Loss of local, public environmental stewardship

Selling the water and sewer system will restrict Haddonfield's ability to manage its water resources and land use to best protect the environment and meet local sustainability goals. Such loss of control interferes with intergovernmental planning about natural resource protection.¹⁹ The sale could compromise the borough's recently achieved "Sustainable Jersey" certification status,²⁰ for example by limiting the community's ability to achieve water conservation goals.²¹ Compared to private water utility companies, publicly owned water utilities are more proactive at encouraging and promoting water conservation.²²

Private water companies also have a financial incentive to overbuild infrastructure because of the way they generate profit under rate-of-return regulation.²³ American Water and its

subsidiaries have been taken to task for this in the past. In 2011, the editorial board of the *Lexington Herald-Leader* accused the Kentucky arm of American Water of charging "water bills that are grossly inflated by the cost of a new \$164-million treatment plant and pipeline that may never be needed."²⁴

Likely larger water and sewer bills

The sale will also translate to higher bills. Under both public and private ownership, water rates will need to increase to cover the cost of necessary system improvements. However, rates would likely increase by a larger amount under New Jersey American Water ownership than under borough ownership.

The below sections examine the prospect that Haddonfield residents will face larger water and sewer bills as a consequence of the proposed privatization.

Bill comparison

As of July 2014, New Jersey American Water charged about two to four times as much as Haddonfield charged for water and sewer service. (See Table 1 and Figure 1.) In Haddonfield, a typical household currently pays \$587 a year for water and sewer service. Typical New Jersey American Water residential customers using the same amount of water pay between \$1,124 and \$2,606 annually for water and sewer service, depending on where they live. That's an extra \$537 to \$2,019 a year.

Water rates

After a three-year rate freeze,³¹ New Jersey American Water will likely seek to bring water rates in Haddonfield up to the level that the company charges in its main service division.³² As of July 2014, the water rates in that service division were 27 percent higher than Haddonfield's rates. (See Table 1.) Haddonfield's Community Advisory Committee even referred to water purchased from New Jersey American Water as "expensive outside water."³³

Sewer rates

New Jersey American Water does not own many sewer systems in the state and does not yet charge a uniform statewide sewer rate. It will seek to increase Haddonfield's sewer rates to recoup its Haddonfield-specific costs, including purchase price, as well as to cover its profits and taxes.³⁴ The company plans an initial sewer rate increase of 12.5 percent with estimated 3.5 percent annual increases over the next several years.³⁵ Sewer rates could increase dramatically in the future as the company recovers the purchase price and other investments.³⁶

Correcting the borough's flawed rate analysis

Haddonfield officials conducted a rate analysis that they used to justify their decision to approve the sale and send the deal to a public vote.³⁷ That analysis suggested that over the

next 30 years, total household bills would be less "or at least comparable" under New Jersey American Water ownership than under borough ownership,³⁸ but it suffers from two major flaws. First, it contains a simple but significant calculation error. Second, it is based on the assumption that household water bills under New Jersey American Water rise much slower than they have historically.

After correcting for the calculation error and after making realistic assumptions about household water bill increases under New Jersey American Water, the same analysis shows that privatization would cost the average Haddonfield household thousands of dollars in additional water and sewer charges over the next three decades. (See Figure 2.)

Fixed water charges

In its rate analysis, the borough miscalculated the fixed water charges under New Jersey American Water ownership. A water bill has two components: a fixed charge based on meter size and a volumetric charge based on water use. As of July 1, 2014, the borough's and the company's volumetric water rates were similar, but the company's fixed service charge was three times the borough's meter charge. (See Table 2.)

The borough assumed that the company would increase the fixed water meter fee in the borough to bring it level with the company's fixed water service charge in its main service area by 2024.⁴² In its rate analysis, however, the annual fixed charge is only \$83 in 2024,⁴³ which is little more than half of the \$155 that the company charged in 2014 (see Table 2), and an even smaller fraction of what the fixed water service charge in the company's main service area is projected to become over the next decade. In fact, the borough's analysis predicted that the fixed water charge would be only \$121 in 2043, year 30 of American Water ownership; that's less than what the company charged in 2014. This is a serious error.

Table 3. New Jersey American Water Annual Water Bills for a Household Using 84,000 Gallons a Year					
Year	Service Area	Periodic Bill	Annual Bill		
199046	Hunterdon, Warren, Middlesex, Ocean, Burlington, Camden, Atlantic and Cape May Counties	\$55.90 a quarter	\$223.60		
201447	General Metered Service - Service Area 1	\$57.63 a month	\$691.57		
Total Increase					
Average Annual Growth Rate					

Table 4. New Jersey American Water — Financing Costs					
Capital Structure	Ratio	Cost	Weighted Cost		
Long-Term Debt	47.97%	5.7543%	2.76%		
Preferred Stock Equity	0.03%	4.7365%	0.0014%		
Common Equity	52.00%	10.1500%	5.28%		
Cost of Capital (Not including income tax)	100%		8.04%52		
Income Taxes [equity * (Tax factor -1)]	4.22%				
Economic Cost of Capital (including income tax)	12.26%				

Note: The tax factor is also known as the revenue conversion factor. It is generally given by the formula: Revenue conversion factor = 1/ (1 – composite state and federal income tax rate). But it can be adjusted to account for various other items, including "uncollectable revenue." New Jersey American Water's latest rate case used a revenue conversion factor of 1.798530. 1.798530.

Assuming that the fixed meter fees in Haddonfield do grow to match those in the main service area by 2024, but still using all of the other assumptions and calculations that the officials made in their rate analysis,⁴⁴ Food & Water Watch found that households would save \$843 over the next 30 years by retaining local, public ownership of their water and sewer systems. (See appendix for details.)

Annual rate increases

The borough analysis assumed that New Jersey American Water will increase household water volumetric rates by only 2 percent a year after 2019 and fixed fees by only 2 percent after 2024, and that the purchase water charge will not change after going into effect in 2018. These assumptions are unrealistic. In fact, over the last 24 years, typical household customers of New Jersey American Water have seen their water bills increase by about 5 percent annually, on average. (See Table 3.)

Correcting for the rosy assumption of annual water rate increases of just 2 percent, and assuming that Haddonfield residents are fortunate and see increases of only 4 percent a year over the next three decades, privatization will cost the typical household more than an extra \$8,200, or more than \$4,300 in constant 2014 dollars. (See appendix for details.)

It is difficult to determine whether the borough's analysis contains other inaccuracies that also make the sale of the Haddonfield utility seem more favorable, so the actual benefit of public ownership may be even greater.

Significantly higher financing costs

Capital improvements drive increases in water and sewer rates, and rates will increase to a greater degree under private ownership because private financing is substantially more expensive than government borrowing, and because the private company generally will seek to recoup the purchase price with interest.⁴⁸

The borough can issue low-cost, tax-exempt municipal bonds to finance its water and sewer projects with interest rates at or below 4 percent.⁴⁹ With a sale, the utility will lose access to these inexpensive municipal revenue bonds, as well as to low-interest loans from the state's Clean Water State Revolving Fund program.⁵⁰

Water companies use a mix of debt and equity to finance a project, and state regulators allow them to charge rates to recover the full cost of debt, to make a return on their equity investment and to pass income tax expenses on to consumers. New Jersey American Water's full economic cost of capital is more than 12 percent. (See Table 4.) If a sale occurs, Haddonfield residents would pay this higher financing cost through increases in their water bills.

Take action

On November 4, 2014, voters will decide the fate of their water infrastructure. Vote no to stop the sale of Haddonfield's water and sewer systems to New Jersey American Water. A no vote will safeguard the borough's water supply by retaining local public control over the water infrastructure. Responsible public operation is the best way to ensure safe and affordable water service for future generations.

Appendix: corrected water bill analysis

Part 1. Corrected meter fee calculation

The borough's analysis has a stated assumption that under New Jersey American Water ownership, the fixed meter charge in Haddonfield will increase to reach the rate structure in the company's main service area in 2024.⁵⁵ The actual calculations in the borough's rate analysis, however, fail to reflect this assumption.

Using the same assumptions as the borough and correcting the calculations so that the meter charge does actually equalize in a decade, the analysis finds that privatization would cost the average household an extra \$843 over 30 years, or \$383 extra in constant 2014 dollars. (See Table 5.)

Assumptions (equivalent to the borough's)⁵⁶:

- Annual water usage: 58,000 gallons
- 3-year water (not sewer) rate freeze in the borough
- New Jersey American Water increases its meter charges in its main service area by 2 percent a year
- Purchase water charge starts in 2018 and remains constant
- Meter charge in Haddonfield after privatization equalizes with the fixed service charge of the company's main service area in 2024

Part 2. Corrected assumptions

The borough's analysis assumed that New Jersey American Water would increase its rates by only 2 percent a year.⁶¹ This dramatically underestimates how much household bills are likely to grow over the next three decades under American Water ownership. Since 1990, a typical household has seen their water bills increase, on average, at an annual rate of about 5 percent. (See Table 3.)

Assuming that the company's water charges grow by just 4 percent a year (a conservative estimate), and assuming that New Jersey American Water water rates in the borough are brought level with the company's main service division in a decade, then public ownership will save the typical household \$8,238, or \$4,312 in constant 2014 dollars. (See Table 6.)

Assumptions (equivalent to the borough's)⁶²:

- · Annual water usage: 58,000 gallons
- 3-year water (not sewer) rate freeze in the borough
- Haddonfield's water service charges after privatization equalizes with the company's main service area in 2024

Corrected assumptions:

 All water charges increase by 4 percent a year under New Jersey American Water ownership

Correcting for Meter Charge Miscalculation Only The Cost of Bills Under American Water Ownership (With the Sale) Water and Privatization NJAW Sewer Bills Fixed Fixed Under Inflation-Fees **Purchase** Total Fees Volumetric Haddonfield Total Adjusted Year Water Total Water Increase (with actual Ownership (Main Water Sewer Increase Water leveling of Charge and (Decrease) Service (No Sale) (borough (borough (Decrease) fixed water (borough (corrected) Sewer with Sale (borough Area) figures)58 with figures)60 service figures)59 (corrected) figures)57 Sale* charge) 2014 \$155 \$50 \$361 \$-\$411 \$173 \$585 \$586 (\$1)(\$1) 2015 \$158 \$50 \$361 \$411 \$215 \$627 \$598 \$29 \$28 \$-2016 \$161 \$50 \$361 \$411 \$236 \$647 \$623 \$24 \$23 \$-2017 \$164 \$50 \$361 \$-\$411 \$257 \$669 \$689 (\$20)(\$19)\$70 \$397 \$493 \$13 \$11 2018 \$167 \$26 \$281 \$774 \$761 2019 \$171 \$90 \$405 \$26 \$520 \$293 \$770 \$43 \$37 \$813 2020 \$174 \$109 \$414 \$26 \$548 \$304 \$853 \$839 \$14 \$12 \$129 \$422 \$576 \$29 2021 \$178 \$26 \$317 \$893 \$857 \$36 2022 \$181 \$149 \$430 \$605 \$26 \$330 \$934 \$956 (\$22)(\$18)\$169 \$633 2023 \$185 \$439 \$26 \$343 \$976 \$979 (\$3)(\$2)2024 \$188 \$188 \$448 \$26 \$661 \$355 \$1,016 \$979 \$31 \$28 2025 \$192 \$457 \$674 \$1,042 \$987 \$55 \$40 \$192 \$26 \$367 2026 \$196 \$466 \$26 \$687 \$380 \$1,067 \$1,053 \$14 \$10 \$196 2027 \$200 \$200 \$475 \$26 \$700 \$393 \$1,094 \$1,096 (\$2)(\$1)2028 \$204 \$204 \$485 \$26 \$714 \$407 \$1,121 \$1,150 (\$29)(\$19)2029 \$208 \$208 \$494 \$26 \$728 \$422 \$1,149 \$1,174 (\$25)(\$16)\$212 \$1,245 2030 \$212 \$504 \$26 \$742 \$436 \$1,178 (\$67)(\$42)2031 \$216 \$216 \$514 \$26 \$756 \$452 \$1,208 \$1,307 (\$100)(\$60)2032 \$221 \$221 \$524 \$26 \$771 \$467 \$1,238 \$1,307 (\$69)(\$41)2033 \$225 \$225 \$535 \$26 \$786 \$484 \$1,269 \$1,363 (\$93)(\$53)2034 \$230 \$230 \$546 \$26 \$801 \$1,301 \$1,363 \$501 (\$61)(\$34)2035 \$234 \$234 \$557 \$26 \$816 \$518 \$1,334 \$1,363 (\$28)(\$15)\$239 \$832 2036 \$239 \$568 \$26 \$536 \$1,368 \$1,420 (\$51)(\$27)2037 \$244 \$244 \$579 \$26 \$848 \$555 \$1,403 \$1,420 (\$8)(\$16)2038 \$249 \$249 \$591 \$26 \$865 \$574 \$1,439 \$1,427 \$12 \$6 2039 \$254 \$254 \$602 \$882 \$1,476 \$1,295 \$182 \$87 \$26 \$595 2040 \$259 \$259 \$614 \$26 \$899 \$615 \$1,514 \$1,325 \$189 \$88 2041 \$264 \$264 \$627 \$26 \$916 \$1,553 \$1,354 \$199 \$89 \$637 2042 \$269 \$269 \$639 \$26 \$934 \$659 \$1,593 \$1,382 \$211 \$92 2043 \$274 \$274 \$652 \$26 \$952 \$159 \$682 \$1,634 \$1,260 \$374 **Total** \$843 \$383 * Discounted assuming 3 percent rate of inflation

Table 5. Corrected Household Water and Sewer Bill Comparison With and Without a Sale,

Table 6. Corrected Household Water and Sewer Bill Comparison With and Without a Sale, Correcting for Meter Charge Miscalculation and Annual Rate Increase Under New Jersey American Water Ownership

					ter Ownership		
		Bills Under American Water Ownership		Water and Sew-	The Cost of		
	New Jersey	(With the Sale)			Privatization		
	American Water – Main				er Bills Under		l
Year	Service Area	Water Bills	Sewer Bills	Water and	Haddonfield	Increase	Inflation-
Tear	Water Charges	(actual leveling of	(from borough	Sewer Bills	Ownership	Increase (Decrease)	Adjusted Increase
	(4% annual	water charges)	rate analysis) ⁶⁴	(corrected)	(No Sale)	with Sale	(Decrease)
	increase)	774.60 6.741.865)	. acc arranyono,	(5577 5555 ш)	(borough figures) ⁶³		with Sale*
2014	\$525	\$413	\$173	\$586	\$586	\$0	\$0
2015	\$546	\$413	\$215	\$628	\$598	\$30	\$30
2016	\$568	\$413	\$236	\$648	\$623	\$26	\$24
2017	\$591	\$413	\$257	\$670	\$689	(\$19)	(\$17)
2018	\$615	\$465	\$281	\$746	\$761	(\$15)	(\$13)
2019	\$639	\$517	\$293	\$810	\$770	\$39	\$34
2020	\$665	\$569	\$304	\$874	\$839	\$35	\$29
2021	\$691	\$621	\$317	\$938	\$857	\$81	\$66
2022	\$719	\$673	\$330	\$1,003	\$956	\$46	\$37
2023	\$738	\$726	\$343	\$1,068	\$979	\$89	\$69
2024	\$778	\$778	\$355	\$1,133	\$979	\$154	\$114
2025	\$809	\$809	\$367	\$1,176	\$987	\$190	\$137
2026	\$841	\$841	\$380	\$1,221	\$1,053	\$168	\$118
2027	\$875	\$875	\$393	\$1,268	\$1,096	\$172	\$117
2028	\$910	\$910	\$407	\$1,317	\$1,150	\$167	\$110
2029	\$946	\$946	\$422	\$1,368	\$1,174	\$194	\$124
2030	\$984	\$984	\$436	\$1,420	\$1,245	\$175	\$109
2031	\$1,023	\$1,023	\$452	\$1,475	\$1,307	\$168	\$101
2032	\$1,064	\$1,064	\$467	\$1,532	\$1,307	\$224	\$132
2033	\$1,107	\$1,107	\$484	\$1,591	\$1,363	\$228	\$130
2034	\$1,151	\$1,151	\$501	\$1,652	\$1,363	\$289	\$160
2035	\$1,197	\$1,197	\$518	\$1,715	\$1,363	\$352	\$189
2036	\$1,245	\$1,245	\$536	\$1,781	\$1,420	\$362	\$189
2037	\$1,295	\$1,295	\$555	\$1,850	\$1,420	\$430	\$218
2038	\$1,347	\$1,347	\$574	\$1,921	\$1,427	\$494	\$243
2039	\$1,401	\$1,401	\$595	\$1,995	\$1,295	\$701	\$335
2040	\$1,457	\$1,457	\$615	\$2,072	\$1,325	\$747	\$346
2041	\$1,515	\$1,515	\$637	\$2,152	\$1,354	\$797	\$359
2042	\$1,575	\$1,575	\$659	\$2,235	\$1,382	\$853	\$373
2043	\$1,638	\$1,638	\$682	\$2,321	\$1,260	\$1,060	\$450
Total					\$8,238	\$4,312	
* Discounted assuming 3 percent rate of inflation							

Endnotes

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Food & Water Watch works to ensure the food, water and fish we consume is safe, accessible and sustainable. So we can all enjoy and trust in what we eat and drink, we help people take charge of where their food comes from, keep clean, affordable, public tap water flowing freely to our homes, protect the environmental quality of oceans, force government to do its job protecting citizens, and educate about the importance of keeping shared resources under public control.



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