

American Water: A Corporate Profile

Fact Sheet • November 2013

American Water Works Company is the largest publicly traded U.S. water utility company, serving approximately 14 million people in more than 30 states and two Canadian provinces.¹

Background

American Water traces its roots to the American Water Works & Guarantee Company, which was founded in McKeesport, Pa., in 1886.² In 1914, when the company was unable to pay its debts, receivers for upset investors reorganized the company under new management and created the American Water Works & Electric Company, whose name reflected its sizable holding of power companies.³ Following the Great Depression, new federal regulations of public utility holding companies forced American Water Works & Electric Company to restructure, and it sold off its lucrative water businesses to finance the change.⁴

Purchased through the Northeastern Water Company,⁵ John H. Ware, Jr., a Pennsylvania millionaire,⁶ was the sole bidder for the water assets⁷ and took control of the newly formed American Water Works Company in 1947.⁸ The Northeastern Water Company merged into American Water in 1962.⁹ The Ware water dynasty lasted for decades. After Ware retired as chair of the American Water board of directors in 1960, his oldest son (John H. Ware, III) took his place, serving until 1984;¹⁰ later, his granddaughter Marilyn Ware Lewis chaired the board from 1988 until 2003.¹¹

In 2003, German energy giant RWE bought American Water in an audacious and ultimately disastrous \$7.6 billion deal.¹² After just two years, RWE announced its plan to pull out of the U.S. water sector.¹³ Leaked minutes from a RWE board meeting revealed that American Water had failed to meet any of its targets¹⁴ and that “considerable political resistance to privatization of the water sector” was a major factor in its failure to thrive.¹⁵ RWE began selling off American Water in April 2008,¹⁶ and had completely divested itself of the company by the end of 2009. At the end of 2012, American Water still carried more than a billion dollars of legacy costs associated with RWE’s foray and retreat.¹⁷



Strategy

American Water, through its subsidiaries, focuses on owning water and sewer systems.¹⁸ It targets struggling municipal systems for takeover, purchases other private systems adjacent to its existing network, and hikes water and sewer rates.¹⁹ During 2012, it bought 10 water and sewer systems and hiked water rates in nine states.²⁰ That year, it also sold its systems in Arizona, New Mexico and Ohio to concentrate on states expected to be more profitable.²¹

The company is, in the words of CEO Jeffrey Sterba, “very active on the public policy and regulatory front.”²² It seeks to influence state governments and regulatory agencies to authorize schemes and mechanisms that facilitate rate hikes, speed up investment returns and push corporate financial risks onto consumers.²³ The company pursues half a dozen different tricks: infrastructure surcharges, purchased water and power surcharges, surcharges to offset decreased revenue from water

conservation, rate setting based on projections instead of actual costs, charging the same rates statewide regardless of local conditions and profiting on infrastructure projects before they are in service.²⁴ The company also lobbies the federal government for special tax breaks and other assistance that could facilitate privatization or shareholder earnings. During 2012 and the first half of 2013, it spent \$270,000 to lobby Congress, the White House and the Treasury Department about water financing legislation and tax policy.²⁵

While increasing rates on consumers, the company seeks to squeeze its workforce;²⁶ from 2011 to 2012, it cut labor costs by \$17.8 million, or 3.6 percent, most of which came out of employee pensions.²⁷ American Water or its subsidiaries have violated labor law several times, including interfering with protected union organizing activities²⁸ and unilaterally and improperly slashing employee benefits.²⁹

Another area of interest to the company is the “opportunity” to exploit Marcellus Shale development through a two-pronged strategy of building pipelines to provide water to drillers and then connecting households along the pipeline to its water system.³⁰ From 2011 to 2012, American Water

doubled its sales to water drillers, making about \$3 million in 2012 by selling more than 430 million gallons to oil and gas companies.³¹

The company also operates the water or sewer systems of several dozen local governments and nine military bases.³² It actively seeks long-term concessions of other government systems with a strong interest in the lucrative 50-year Department of Defense deals.³³ From January 2012 through June 2013, the company spent \$110,000 to lobby Congress and the Department of Defense to support privatizing military water utilities.³⁴

Key Financial Figures (2012)

American Water Works Company (AWK)

Headquarters: Voorhees, N.J.

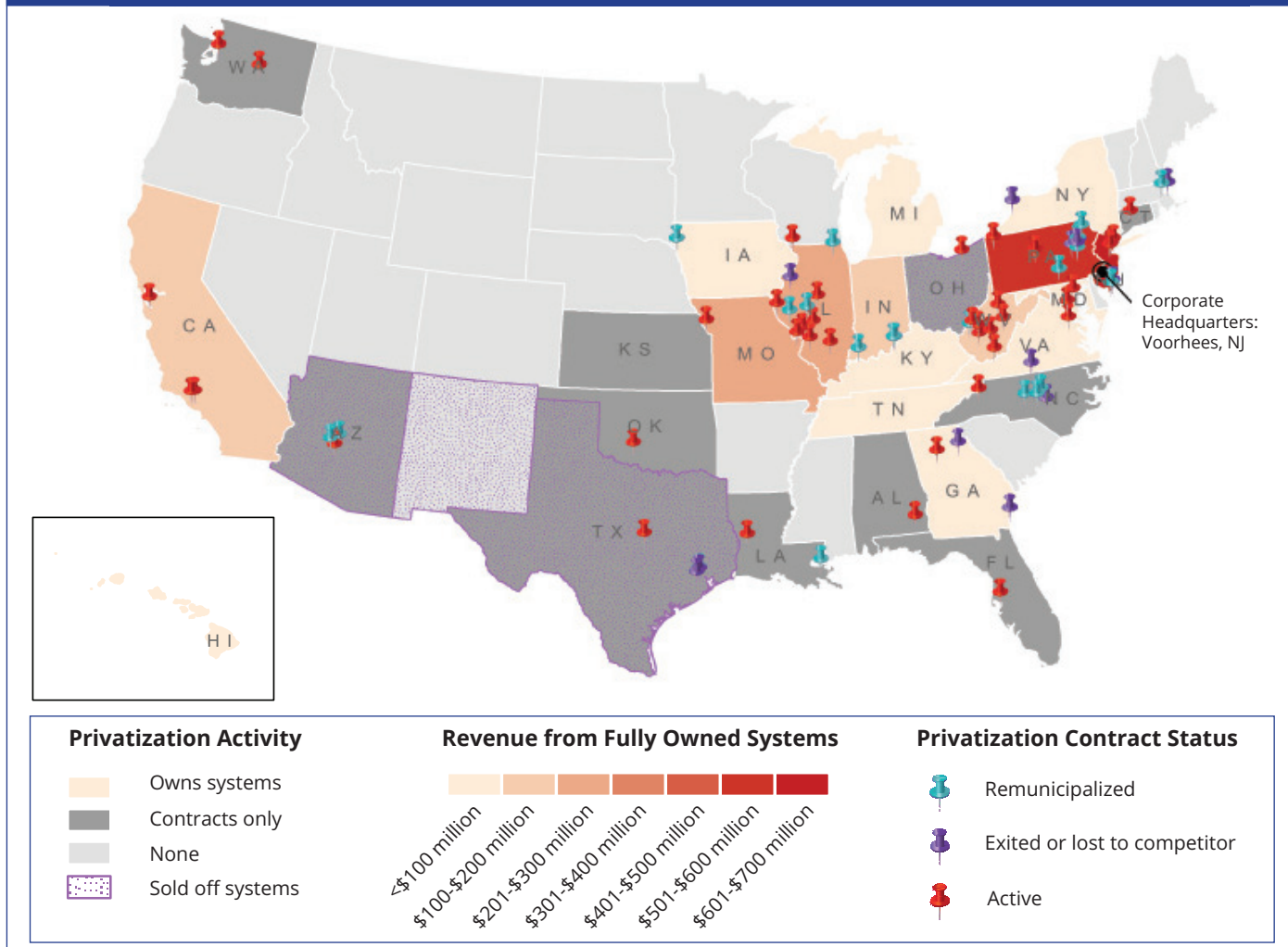
CEO: Jeffrey E. Sterba

Total CEO Compensation: \$3.8 million⁴⁰

Revenues: \$2.9 billion⁴¹

Profit: \$358 million⁴²

American Water in the United States



2012 revenue; contracts not comprehensive. Last updated August 2013.

Sources: American Water. U.S. Securities and Exchange Commission. Form 10-K. March 1, 2013; Food & Water Watch's internal database of privatization contracts, August 2013.

Assessment

American Water has come under fire from communities across the country for charging high rates, providing poor service, endangering public safety and lacking public accountability.³⁵ From Birmingham, Ala., in the 1950s (“The general public will not accept that we continue to pay damyankees [to run the water system].”)³⁶ to Felton, Calif., in 2008,³⁷ communities across the country have wrested local control of their water systems from American Water. As of 2013, the company faces ongoing municipalization struggles from the Monterey Peninsula, Calif.,³⁸ to metropolitan Chicago, Ill.³⁹

Felton, Calif.: Local Control to Save Money

In 2008, the people of Felton successfully wrested control of their water system from the clutches of California American Water.

This small coastal community just north of Santa Cruz began mobilizing in the fall of 2002, while the company sought a 74 percent revenue increase and was being bought by RWE.⁴³ Over the next five and a half years, Felton FLOW – Friends of Locally Owned Water – organized dozens of meetings and fundraisers, opposed the company’s rate increases before state regulators and helped the San Lorenzo Valley Water District purchase the local water system.⁴⁴

Above all, Felton FLOW led the charge behind ballot Measure W, which authorized a special tax to pay for an \$11 million bond to finance the public buyout.⁴⁵ In July 2005, despite a well-lubricated, no-holds-barred corporate campaign against the measure,⁴⁶ voters approved the bond measure by a 3-to-1 margin.⁴⁷ As water district officials remarked, “It is hard to imagine how any stronger proof could be provided of the Felton community’s level of commitment and support for gaining local control of their water utility.”⁴⁸

California American Water continued to fight the sale, and its legal wrangling delayed the purchase and wasted public resources. The water district repeatedly told the company that it wanted to negotiate a settlement and avoid eminent domain litigation,⁴⁹ but the company refused to come to the bargaining table, forcing the district to file an eminent domain petition.⁵⁰ The company seemingly used legal tactics to stall the purchase while avoiding actual adjudication. First, the company contested the public’s right to condemn but withdrew its legal challenge a week before the start of the trial.⁵¹ The company then fought over the purchase price and similarly settled with the district less than a week before the valuation trial was to start.⁵²

Finally, at the end of May 2008, California American Water agreed to sell Felton’s water system to the San Lorenzo Valley Water District.⁵³ As part of the deal, the district paid \$10.5 million in cash and assumed \$2.9 million of the system’s existing debt, and the company “donated” 250 acres of watershed land. In September 2008, the transaction was completed and the water system came under public ownership.⁵⁴

Despite claims by the company otherwise,⁵⁵ Felton households saved hundreds of dollars a year with public control. In 2011, for example, a household using 800 cubic feet of water a month would have paid \$1,625 under the company’s proposed rates,⁵⁶ but with public ownership, that household actually paid \$1,123: \$588 in water charges⁵⁷ and \$535 in taxes related to the acquisition bond.⁵⁸ In total, public ownership cut a typical Felton household’s water costs by about 30 percent, saving around \$500 a year.

Trenton, N.J.: Public Victory Over a Flawed Sale

In 2010 Trenton voters overwhelmingly rebuffed a proposal to sell part of their water system to American Water.⁵⁹

Three years earlier, city officials agreed 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.⁶⁰ The city would have received \$80 million, about half of which would have been used to pay off water-related debt.⁶¹ City officials wanted to use the remaining proceeds to cover immediate budget deficits and likely would have depleted the funds within two or three years.⁶²

It was a shortsighted approach. Selling the system would not have addressed the underlying structural reasons for the city’s budget deficit, and it could have worsened the city’s long-term fiscal health because the city would lose annual revenue from the water fund.⁶³ From 2007 to 2010, the city spent an estimated \$15 million of its water funds on general city services.⁶⁴ 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.⁶⁵ If American Water were to stop buying water from the city, Trenton households would have likely faced rate increases to offset the lost revenue.

For the outlying suburban towns, rate hikes were planned. New Jersey American Water would have hiked rates by 30 percent immediately and then increased them incrementally up to the level charged in its main service area.⁶⁶ In mid-2010, the typical household using 7,000 gallons a month paid 33 percent, or \$138 a year, more for water service from American Water than for city service.⁶⁷ Because the company typically increases its rates every two or three years,⁶⁸ this difference has only grown with time. By August 2013, the company had increased the typical household’s bill by 19 percent, adding an extra \$108 onto their annual bill,⁶⁹ while the city hadn’t increased its water rates.⁷⁰

In 2009, 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, fought their efforts and sought to sidestep public approval.⁷¹

After a yearlong legal battle, the public won a decisive victory. In 2010, the state Supreme Court ruled in favor of the citizens' right to seek a citywide referendum.⁷²

Immediately after the court decision, New Jersey American Water ramped up an aggressive campaign to sway residents to support the sale.⁷³ In six weeks of electioneering, the company through its political committee "The Committee for Trenton Yes" spent more than \$1 million⁷⁴ — 34 times the amount spent by the local anti-sale group,⁷⁵ which was aided by Food & Water Watch. Despite the company's flush campaign fund, on June 15, 2010, Trenton voters rejected the sale by a margin of 4 to 1.⁷⁶ David beat Goliath.

Coatesville, Pa.: The Financial Burden of Growing Water Bills

In Coatesville, a struggling steel city in southeastern Pennsylvania, soaring water bills left residents questioning the soundness of the sale of their drinking water and wastewater systems to Pennsylvania American Water in 2001.⁷⁷

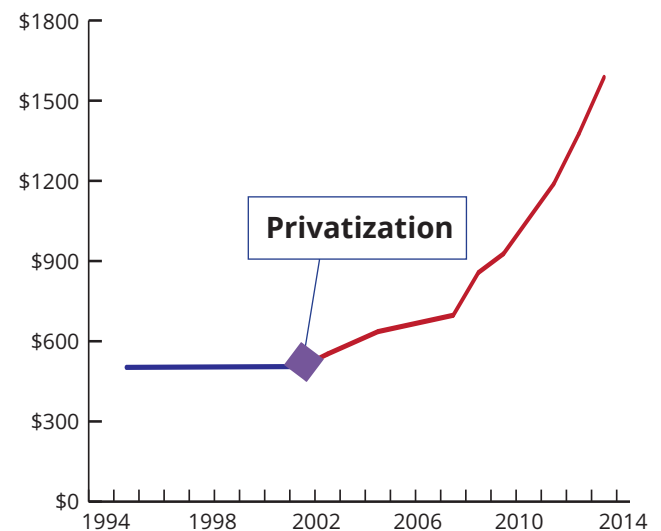
The city saw the sale as a way to generate perpetual funding for city services by investing the proceeds of the sale, some \$40 million,⁷⁸ so that "the assets of the sale will be used forever to generate interest which will assist in the funding of the City."⁷⁹ Tough economic times and city spending,⁸⁰ however, drained the trust fund by three-quarters, leaving only \$10 million by 2012.⁸¹ As the community's financial situation deteriorated, the water system's new private owner pursued aggressive rate increases.

In 2010, the city budgeted \$40,000 for legal support to fight the company's proposal to hike household sewer rates by 229 percent.⁸² The company claimed that it needed to recoup the cost of building a new wastewater treatment facility, but consumers and community organizations disagreed and accused the company of overbuilding the plant to boost its profits. At the time, the plant was operating at only half its capacity, according to municipal officials and residents.⁸³ Nonetheless, in December 2010, the company received approval for a phased-in rate increase to more than triple sewer rates over the following four years.⁸⁴

In total, even though the company agreed to freeze rates for the first three years, the typical household's water and sewer bill has more than tripled since American Water took over. In 2001, a household using 54,000 gallons of water paid \$505 for water and sewer service.⁸⁵ By 2013, a household using the same amount of water was paying three times as much — \$1,587 a year.⁸⁶ That is a considerable amount of money for an essential service, particularly in a community like Coatesville where nearly half of households make less than \$35,000 a year.⁸⁷ Under American Water control, water and sewer service is becoming increasingly unaffordable.

The Escalating Price of Water and Sewer Service in Coatesville, Pa.

Annual Water and Sewer Bills for Households Using 54,000 gallons a year (not inflation-adjusted)



Other Notable Cases

Cave Creek, Ariz.: In 2008, the town of Cave Creek saved money and improved service after bringing its water and wastewater treatment systems into public hands, exiting and not renewing deals with Arizona American Water.⁸⁸

Mike Rigney, the assistant utilities manager, described one compelling benefit of local water management: "One of the major issues with Arizona American has been the call to an 800 number. Somebody in some remote state would answer the phone and wouldn't know what was going on in Cave Creek. By handling the system locally and by having it in real time and by having constant communication with the field people, we will know exactly when the problems occur, [know] what the status of that repair is, and be able to communicate more effectively with customers to be able to resolve problems."⁸⁹

Montara, Calif.: In 2003, Montara Sanitary District purchased the water systems for the Montara and Moss Beach communities from California American Water, promising to rehabilitate the dilapidated system, improve water supplies and stabilize water rates while providing local control and public accountability.⁹⁰

Sioux City, Iowa.: In 2010, Sioux City terminated its wastewater management contract with American Water 14 years early. The city accused the company of failing to meet its responsibilities and obligations, including providing adequate staffing.⁹¹ In the first full year of public operation, the city cut the cost of operating the wastewater treatment plant by a quarter, saving about \$1.5 million a year compared to the cost of private operation.⁹²

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