Social Studies

Waterworks: Public or Private?

Overview

Students will:

- **Understand the history and present state of water systems in the U.S., and the current global trend towards privatization.**
- **Gain an understanding of the risks and benefits of both publicly and privately owned water systems.**
- **Analyze a variety of water privatization schemes to solve the water system problems at a fictional high school.**

Terrain Article

"Stockton Water Not for Auction", page 12.

Introduction

Water is a basic human necessity. In the U.S., complex water systems involving thousands of miles of pipes, enormous dams, reservoirs, and water treatment plants allow you to turn on the faucet and brush your teeth–even if there is not a source of freshwater for hundreds of miles.

Many of the current water systems in the U.S. date back to the late 1800s/early 1900s. These old systems of pipes and pumps are aging and desperately need to be replaced and renovated. The problem? The price tag on such a task is hefty; some estimate that over $20 billion dollars must be spent over the next twenty years to adequately update our water systems.

Currently, over eighty percent of Americans receive their water from publicly-owned utilities, water systems owned and operated by local governments. But local governments are finding it hard to come up with the millions of dollars needed for repairs and improvements, and the federal government is not lending a hand. Corporations and private companies are seeing this as an excellent opportunity to make a profit while serving a need.

Already, around the world, "**privatization**" of water systems is an emerging trend. Private companies promise to repair, replace, and run water systems more efficiently than a local municipality, while still keeping rates to consumers low. Opponents of privatization say it gives communities less control over the water they depend on. Depending upon whom you talk to, past privatization experiments have been successes or disasters. Yet these offers from companies remain appealing to governments who can't or don't want to come up with solutions on their own.

In recent years, water privatization efforts have been attempted across the U.S. – from Atlanta, Georgia to Franklin, Ohio to Stockton, California.

All of us face the possibility of our local governments looking to private companies to maintain, operate, or even contol our water supply. As citizens and water-loving beings, we must learn as much as we can about the issue so we can make the best decisions for our present and future.

Questions to Ponder

- When a government fails to provide clean water to its citizens, should they be allowed to turn that responsibility over to a corporation, even if that corporation is from a different country?
- What are the pros and cons of treating clean water as a commodity, a product to be bought and sold, rather than a basic human right? Has water already become a commodity, as illustrated by the bottled water craze within the U.S.?
- Will this commodity be made available to all in need, not just humans but ecosystems as well? Who's more likely to make sure plants and animals in a watershed get the water they need – corporations or local governments?
- What is the primary goal of a private water supply company? What is the primary goal of a public water utility?

CA SOCIAL STUDIES STANDARDS, GRADES 11-12: Principles of American Democracy 12.2.4. Understand the obligations of civic-mindedness, including voting, being informed on civic issues… Principles of Economics 12.1.3. Identify the difference between monetary and nonmonetary incentives and how changes in incentives cause changes in behavior. 12.2.7. Analyze how domestic and international competition in a market economy affects goods and services produced and the quality, quantity, and price of those products. 12.2.8. Explain the role of profit as the incentive to entrepreneurs in a market economy. 12.3.1. Understand how the role of government in a market economy often includes…attempting to make markets more competitive, and protecting consumers' rights. 12.3.2. Identify the factors that may cause the costs of government actions to outweigh the benefits.

Arguments For and Against Water Privatization

Running Hot...

1. Private companies can run water systems more efficiently than the governments, which may result in cheaper rates. Salaries and maintenance make up a smaller percent of the operating costs of a private business.
2. Private water companies will **compete** with local governments to run water districts, forcing public utilities to perform better.
3. Private water companies treat and train their employees better. Employees learn more skills.
4. Private water companies have the most up-to-date equipment and the resources to be able to comply with recent strict water quality mandates set by the government (i.e. Safe Drinking Water Act, Clean Water Act); local governments and public utilities are financially strapped and therefore don't have the resources to comply with these laws.
5. Local and state governments don't have the billions of dollars needed to renovate aging water systems in the U.S. Private companies can fulfill the need.

Running Cold...

1. Local governments can use government subsidies and tax breaks to give consumers lower rates.
2. Corporations' primary interests are in making profits. Public utilities answer to the community, and therefore have the community's best interest in mind.
3. Long-term contracts with private companies are hard and expensive to get out of if the community is dissatified with their service. Putting the public utility back together again may be difficult if the former employees have moved on and the know-how to operate the systems is lost.
4. Private companies aren't necessarily interested in protecting the watersheds and natural ecosystems of the area. As long as a profit can be made, decisions might be made that could potentially damage natural areas and negatively affect plants, animals, and people.
5. Private companies generally make decisions without the public's input. Trials or hearings are often closed off to the affected community. **Transparency** is not encouraged from private companies.
6. Past privatization projects have seen massive employee lay-offs in order to cut costs. While private companies argue that it helps things to run more efficiently, others might argue that it puts extra stress on the remaining employees and could compromise service and water quality.

Privatization: Who's for it? Who's against it?

Those for water privatization often have a financial stake in the advancement of it. Examples include corporations, private companies, the World Bank, the World Water Council, and industry think tanks. Those against water privatization tend to be individuals and organizations concerned about the environment, public health, or community. Non-profit organizations like Public Citizen and the Pacific Institute, in Oakland, are examples.

Although we can generalize about who is for and against water privatization, there are exceptions to the rule. Some people have concluded that although they are wary of privatization and its badly blemished history, they don't outright oppose it. Others believe that in some places and under certain circumstances, letting private companies take responsibility for some aspects of water service may help millions of poor people receive access to basic water services.

Water Wars at Johnson High

Activity

Students will be presented with a hypothetical situation involving a high school with a failing water system and tight budget. They will analyze a various water privatization proposals and decide what's best for the school.

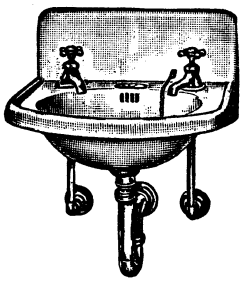
Procedure

1. Class divides into groups of 4. Each group will read the hypothetical school situation below and be assigned proposal A, B, or C on page 21.
2. The proposals on page 21 represent a variety of privatization schemes. To become familiar with the various kinds, see "In-Between Options" on page 22.
3. In each group, two people will take on the role of school faculty—the principal and the financial secretary. The other two people will represent the student body.
4. School faculty and student body representatives should meet separately for 5-10 minutes to analyze the scenario, make decisions, and provide arguments that support their decisions based upon their role at the school.
5. Both parties come together to voice their opinions and deliver their arguments to one another. Can school staff and student body representatives agree on one decision?

Extension Possibility

1. One group from each scenario presents their decision and delivers their arguments to the entire class. (There can be opposing decisions within one group, as long as people can back up their decisions with valid arguments.)
2. After reviewing all three of the proposed contracts as a class and hearing various sides of the story, have the class take a vote. Students should vote according to the voice they are representing, (i.e. principal, student, or financial secretary).
3. Do you vote in favor of accepting any one proposal? If not, what do you propose? Is there another way the school can meet its needs of upgrading the water system without having to contract with a private company? Can you think of other sources of funding?
4. What if the student body was not allowed to review the proposals? What if the student body was not allowed to vote? Would this affect which (if any) proposal was accepted?

Setting the Scene



Johnson High School's water system is old and deteriorating. The water coming from the drinking fountains often has brown particles in it, and students dislike the taste. Bottled water is available from vending machines, but not all students can afford to purchase water on a daily basis. Bathrooms are often closed off due to clogged toilets and broken plumbing. Sinks have constant leaks, and the water has an unpleasant smell.

Johnson High's principal attempts to assure students that the school's water is safe to drink and use, but most everyone (including the principal) agrees that something needs to be done.

Unfortunately, money is tight, and the need to renovate the school's water system is just one of many budgetary issues the school faces. In the past the principal asked for extra funding from the school district to pay for renovation, but the school district responded that there was no extra money in the budget to give to the school. They said there were more urgent projects that required funding. The principle was also told that other high schools facing similar problems had negotiated contracts with private water companies.

Complaints from the student body are on the rise and the principal feels pressured to act. She decides to request a few proposals from private water companies. Any money spent to remedy the water situation would be taken from the existing budget. These are the programs that would suffer cuts first (and their annual allotment): Sports Program – $40,000; Computer Program – $40,000; Art Program – $20,000; Drama Program – $10,000.

Parallels can be drawn between the hypothetical scenerio at Johnson High and real situations faced by towns needing to upgrade their water systems. See page 23 for an explanation.

	What they promise	What they get in return	Other factors to consider	Questions
Proposal C *WaterforAll, a private Texas company, offers a **full service contract**.*	• Clean, high-quality water will run out of every tap and drinking fountain. • Old faucets, pipes, and plumbing will be replaced.	• A 10-year contract to take over operation and maintenance of the school's water facilities. The school will still own the system. • The school will pay WaterforAll $50,000 each year over a 10-year period. At the end of this period, the school may renew the contract.	• The school's decision must be definite; getting out of the contract would be expensive and involve lengthy lawsuits. • The school's annual budget is already pushed to the limit. To pay for this contract, they will have to cut money from other school programs.	• Which programs would you take the money from to pay WaterforAll $50,000 per year? • How would you ensure that WaterforAll sticks to its promises of clean water and functioning infrastructure for the entire 10 years?
Proposal B *Innovative Water Systems, a high-tech private water company, offers a **turnkey facility**.*	• To design and build a slick water filtration system that will produce great-tasting, high-quality drinking water. • Replace and update all sinks, toilets, pipes, drains, etc. • Yearly checks to make sure the system is operating efficiently and to recommend repairs.	• The school pays a fixed amount for the project: $100,000 (they can work out a payment plan over an agreed upon period of time). • A short-term contract with IWS, just long enough to cover the design and building of the water filtration system and the renovation work, which will take about one year.	• If the water system needs repairs, upgrades, or maintenance, the school must hire IWS separately for those needs. • IWS will need an area on school property to build the water filtration building. Construction may take over a year, and it may be noisy. The only open areas are a football field, a garden area, a track, and a lawn where students lunch.	• How would you come up with the $100,000? • How would you ensure that IWS's renovations and water filtration system wouldn't fall apart in the near future? • Will costs for upgrades and maintenance add up in the long run? • Is it worth sacrificing an area of land that's already being used for student activities? If so, which area would you sacrifice?
Proposal A *Water Solutions proposes **acquisition**: they want to buy Johnson High's water system outright for $30,000.*	• To take control of and upgrade the school's water system, and be responsible for its operation and maintenance. • Crystal-clear, refreshing, high-quality water and well-working faucets, toilets, and drinking fountains. • Water Solutions says it will do its best to keep water rates competitive with what the school currently pays.	• Water Solutions will own the school's water system and bill the school monthly for water use. • It will be the sole provider of bottled water on the school campus. Now, students pay $1 for a bottle of water. Water Solutions' bottles of water cost $2; they say the elevated price reflects the higher quality of the water. • Complaints from the school regarding water will go to company headquarters in Pennsylvania. They promise quick response.	• In the past, there have been rumors of Water Solutions not keeping its promises to schools. One school had no water for days; another received bills that were so high they had to cut the drama program to cover costs. Water Solutions says it has worked out past issues and is ready to keep its promises. • After a 20-year period, if the school wants to buy back its water system, Water Solutions will sell it back. However, the company will set the price.	• Is there a way to ensure Water Solutions keeps its promises? •Do you forsee any problems arising that would make you hesitant to accept their proposal? • Is there a danger in relinquishing ownership of the school's water system to a company? • What if the school wanted to buy it back? Would Water Solutions offer it at a fair price?

Public-Private Partnerships

At one end of the spectrum, a water system can be entirely owned and operated by the city. At the other end of the spectrum, a private company can acquire total ownership of the water system. In between those two options, there are many models of public-private partnerships. For example, a city might hire a private company to take over the responsibility of bill collection while still maintaining control and ownership of everything else. Below is a list of various models of public-private partnerships in ownership, adapted from "Privatization of Water Services in the United States: An Assessment of Issues and Experiences," 2002.

Build, Own, and Transfer (BOT)

A private contractor builds, owns, and operates the facility. At the end of a specified period, such as 30 years, the facility may be transferred to the public utility for a small fee.

Full-Service Contract

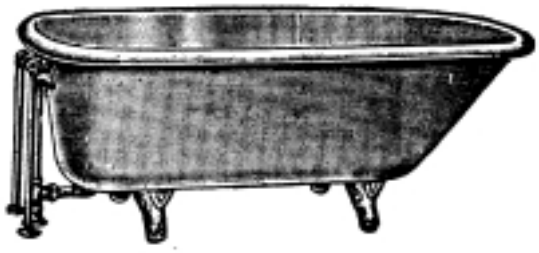
A public utility hires a private contractor to operate and maintain the facility. The public utility owns the facility (although it may have been built by the private contractor).

Turnkey Facility

A private contractor designs, constructs, and operates the facility. The public utility retains ownership and generally assumes the financing risk, while the private contractor assumes the performance risk for minimum levels of service and/or compliance.

Operations Assistance

A private contractor provides transition management or program management to improve the effectiveness of the public utility's operations.



Water privatization is not an all-or-nothing proposition.

Contract Operations

A private contractor operates and maintains the public utility's facilities over the long or short term.

Contract Management

A private contractor manages and supervises the public utility's personnel.

Joint Venture

A private contractor owns the facility in conjunction with the public utility.

What Do You Think?

1. In its report "The New Economy of Water," the Pacific Institute states that "the potential advantages of privatization are often greatest where governments have been weakest and failed to meet basic water needs. Where strong governments are able to provide water services effectively and equitably, the attractions of privatization decrease dramatically." The United States is one of the richest countries in the world, and many consider the U.S. government to be powerful and strong. Are we in need of private foreign companies like French-based Vivendi or German-based IRW to come to our rescue? Or should our local, state, and federal governments prioritize investing in our aging water systems?

2. A statement put forth by the International Conference on Water and Environment, 1992, reads "Water has an economic value in all its competing uses and should be recognized as an economic good." Public Citizen says, "Water is a common good and access to water is an inalienable human right. Water belongs to the Earth and all species and must not be treated as a private commodity to be bought, sold, and traded for profit." What do you think "economic good" means? What do you think "common good" means?

3. If you were mayor of a big, urban city, how would you want your water system to be run?