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Key Elements Conveniently Left Out of the Story by Supporters of Fast-track Water Privatization Bill

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It is often what isn't said that really matters. This struck me as so true as I listened the other day to discussion of a bill that would allow accelerated sale of water assets, bypassing public referendum, and providing a greatly shortened period of regulatory scrutiny of the deal. For reasons that no one has satisfactorily explained so far, this bill is moving with break-neck speed through the NJ Legislature.

In explaining why A3628/S2412 should be passed, private water company representatives say aging infrastructure is a problem, they claim to have the best record of service, and they portray themselves as a friend to beleaguered municipal officials too burdened by many worries to manage their water systems properly. To the first point, I would say true, to the second point, I would say maybe in some cases and not so much in others, and to the third, I can only say oh please.

Here is what is not said: The bill is a key part of an overall strategy to fulfill a business plan. According to one investment site, Aqua America, parent of Aqua NJ, in 2014 "completed 13 acquisitions year to date." Its operating cash flow at the end of 2013 had stood at \$367.8 million and "this will facilitate investments in infrastructure projects, strategic acquisitions, dividend payments and share repurchase." Another investment site touts the quality of an investment in the parent company of New Jersey American: "American Water Works offers very attractive risk-adjusted returns that allow investors to sleep soundly at night." It goes on to say that "American Water methodically expands by buying small water and sewage systems within their service footprint...." Read about another New Jersey company, United Water, and you will see the same themes.

Now, let me make it clear, there is nothing inherently wrong with having a business model and following it. What is wrong is conveniently leaving reference to this aggressive acquisition strategy OUT of the conversation about this bill.

Here is another example of what is NOT said:

In explaining why they support this bill, the legislative representatives greasing the skids discuss this gift to the private water companies of NJ as if it were the only

solution to addressing the state's aging water infrastructure. Look where we find ourselves, they say. What else can we do?

Oh, please.

Systems become distressed because the people who have run them have not invested in maintaining them. In many cases, the funds collected from the system's ratepayers have been diverted for other uses. Municipal officials who want to turn that around are doing the right thing. Privatizing is not the only way to go about it, however. This is a fact that should not be conveniently forgotten when it is suitable.

Privatizing is an expensive solution for ratepayers because it is a good investment for investors. The steady and reliable profit or "rate of return"—so good for the investor — gets added in to the rate paid by the user. A public system ratepayer pays for operations plus debt service plus capital investments. A private system ratepayer pays for those plus the returns and dividends that have to go to investors. When the system is purchased and, as this fast-track bill would allow, the entire purchase price is rolled into rates, the ratepayers whose money built the system then pay for it again!

Municipal officials can indeed fix their systems without choosing this most expensive of solutions. The NJ Environmental Infrastructure Trust is an exemplary program that offers low-interest financing and technical assistance to local governments. There are many public systems that are potentially excellent partners and that have the know-how to help distressed water systems, either by partnering on projects, sharing services, advising, creating service agreements, or merging.

One newspaper editorial about this fast-track water bill observed that "the fix" appears to be in. Will this bill be a done deal by Christmas? I hope not. But whatever the speed of the bill's progress, I just wish the ratepayers of New Jersey get a chance to fully understand what's really happening, with no parts of the story left out.