

# CASHING IN ON CRUMBLING INFRASTRUCTURE



The dual threat our cities face from private water and Trump's infrastructure agenda

Today, U.S. cities, which for decades have struggled to keep up their water systems with diminishing federal support, face a dual threat. The private water industry has been promising efficiency and investment, but instead has delivered corner-cutting measures and has failed to invest in the infrastructure our cities truly need. Now the Trump administration has proposed "key principles" for infrastructure that would shrink already insufficient federal infrastructure investment and further pad the profits of the private sector, while failing to solve our cities' water infrastructure crisis.<sup>1</sup>

The Trump administration's pro-privatization stance represents a dream come true for private water corporations. Yet Trump's infrastructure approach is a nightmare for cities desperate for federal support for maintenance, repair, and improvement of their aging water systems.

Why? Trump's infrastructure approach is a dangerous combination of cutting regulations and necessary enforcement that keep our water systems safe, leaving our cities and states with decreased federal support to run these systems, and subsidizing so-called "public-private partnerships" and other forms of privatization.<sup>2</sup> Meanwhile, the water industry is angling for Trump to grant unfettered access to subsidies and tax breaks. The National Association of Water Companies has told Trump that it is "eager to work with [his] administration to open the door" to a slate of pro-privatization policies.<sup>3</sup>



In Baltimore (pictured above) and other cities across the country, communities have expressed grave concerns about public-private partnerships in the water sector.

Trump's infrastructure approach and the water industry's policy wish list are dangerous for cities because they would:

1. Put pressure on cities to cede control of public resources (like water systems) to private corporations via "public-private partnerships," operation & maintenance contracts, leases, and sales. Driven by profit, the private water industry has a track record of cutting corners that can lead to serious health hazards, labor abuses, and infrastructure neglect, as well as putting low-income communities at risk through aggressive rate hikes.<sup>4</sup>
2. Fail to ensure infrastructure repair and expansion where it is most needed. Corporations prioritize their stakeholders and profit. Giving incentives to the private sector, including government subsidies, will not solve our infrastructure crisis because corporations will never take on infrastructure projects that are desperately needed but not profitable. The federal government could put that money to better use by investing directly in repairing and improving our aging infrastructure.

Both Trump and the for-profit water industry ignore the solution we know works: investing in public funding and financing programs that address our highest priority infrastructure needs.

Rather than giving away billions in public funds to the private sector, the federal government could fund infrastructure grants, increase funding to the Drinking Water State Revolving Funds, and leverage public financing at the state and municipal levels—proven methods for building strong, publicly controlled water systems and other infrastructure.

At the local level, public solutions to water-related challenges include public-public partnerships, green bonds, and other municipal bonds or taxes needed for infrastructure projects.

Federal funding for public water infrastructure is a matter of political will, not of scarce resources. To bolster the national commitment to public funding for our water systems, we need to call on our federal government to reprioritize public funding for this essential infrastructure.



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## Private water's role in lead contamination crises

In Flint, Michigan, the private water corporation Veolia failed to warn of possible lead contamination despite documenting a lack of adequate corrosion control. It even declared Flint's water to be safe. Announcing a suit alleging Veolia committed professional negligence and fraud,<sup>5</sup> Michigan Attorney General Bill Schuette has accused Veolia of "callously and fraudulently" dismissing medical concerns by claiming that "some people may be sensitive to any water."<sup>6</sup>

The Pittsburgh Water and Sewer Authority (PWSA) has similarly brought Veolia into arbitration for gross mismanagement of its water system under their public-private partnership that violated federal and state safety regulations for water treatment.<sup>7</sup> Now, the city's water has lead concentrations exceeding the EPA's "action level."<sup>8</sup> Veolia is now pursuing a counterclaim against the PWSA, placing an additional burden on the authority.<sup>9</sup>

## Private water corporations do not adequately invest in infrastructure

In Hoboken, New Jersey, residents experienced 20 main breaks in 2016.<sup>10</sup> Suez, the corporation charged with maintaining the system, invests a paltry \$350,000 per year for capital improvements while extracting an estimated \$100 million in revenue over the life of the contract.<sup>11</sup> Suez claims the main breaks will continue until the city—and its taxpayers—invest more of their own funds to update the city's infrastructure.<sup>12</sup>

## Skyrocketing rates as a result of private water deals

In Bayonne, New Jersey, a privatization deal involving Suez and private equity firm KKR has left residents with skyrocketing rates. The upfront payment the city received has come at a very high price to residents, who are left to pay back not only the upfront payment amount, but also the added cost of investment returns that the private sector demands.<sup>13</sup> Some residents, struggling to pay their water bills (which have already increased by nearly 28 percent since the deal went through) have even had liens placed on their homes that could lead to foreclosure.<sup>14</sup>

1 "Fact Sheet 2018 Budget: Infrastructure Initiative" (United States Office of Management and Budget, May 23, 2017), 2, [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/fact\\_sheets/2018%20Budget%20Fact%20Sheet\\_Infrastructure%20Initiative.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/fact_sheets/2018%20Budget%20Fact%20Sheet_Infrastructure%20Initiative.pdf).

2 "Major Savings and Reforms: Budget of the U.S. Government, Fiscal Year 2018" (Executive Office of the President of the United States, May 23, 2017), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/msar.pdf>; "Appendix: Environmental Protection Agency, Budget of the U.S. Government, Fiscal Year 2018" (Executive Office of the President of the United States, May 23, 2017), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/epa.pdf>; "Fact Sheet 2018 Budget: Infrastructure Initiative," 2.

3 Michael Deane, "Michael Deane to Donald Trump" (National Association of Water Companies, November 16, 2016), <http://www.nawc.org/uploads/>

documents-and-publications/documents/Transition%20Letter%20(11-18-2016).pdf.

4 Emanuele Lobina, "Troubled Waters: Misleading Industry PR and the Case for Public Water" (Boston: Corporate Accountability International, 2014), <https://www.stopcorporateabuse.org/resource/troubled-waters-misleading-industry-pr-and-case-public-water>; Julia Lurie, "Pittsburgh's Drinking Water Was Clean Until a Private Company Took Over," *Newsweek*, October 26, 2016, <http://www.newsweek.com/pittsburgh-drinking-water-lead-levels-veolia-513946>; Danielle Ivory, Ben Protess, and Griff Palmer, "In American Towns, Private Profits From Public Works," *The New York Times*, December 24, 2016, <http://www.nytimes.com/2016/12/24/business/dealbook/private-equity-water.html>

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6 Walter Smith-Randolph, "Michigan AG Suing Two Major Water Companies over Flint Water Crisis," *WWMT*, June 22, 2016, <http://wwmt.com/news/local/michigan-agsuing-two-major-water-companies-overflint-water-crisis>.

7 "PWSA Files Suit Against Veolia Water North America-Northeast," *Pittsburgh Water and Sewer Authority*, October 12, 2016, <http://pgh2o.com/release?id=6578>.

8 "PWSA 2016 Lead Test Results," *Pittsburgh Water and Sewer Authority*, July 22, 2016, <http://www.pgh2o.com/release?id=6278>.

9 Adam Smeltz, "Veolia Accuses PWSA of Defamation over Mismanagement Claims," *Pittsburgh Post-Gazette*, April 24, 2017, <http://www.post-gazette.com/local/city/2017/04/24/Veolia-accuseddefamation-PWSA-lead-water-Pittsburgh/stories/201704240122>.

10 Brian Thompson, "Hoboken Gets 1st Water Main Break of 2017," *NBC New York*, January 4, 2017, <http://www.nbcnewyork.com/news/local/Hoboken-First-Water-Main-Break-2017-409703355.html>.

11 Ravinder Bhalla, "Suez Contract Must Be Reconsidered," *Hudson Reporter*, December 6, 2015, <http://hudsonreporter.com/bookmark/26989613-Suez-contract-must-be-reconsidered>.

12 Brian Thompson, "Another Water Main Break in Hoboken, Utility Warns Breaks Will Continue," *NBC New York*, November 30, 2015, <http://www.nbcnewyork.com/news/local/Another-Water-Main-Break-Hoboken-New-Jersey-NJ-Monroe-Street-First-Avenue-358712601.html>.

13 Emanuele Lobina, "Troubled Waters: Misleading Industry PR and the Case for Public Water," 32.

14 Danielle Ivory, Ben Protess, and Griff Palmer, "In American Towns, Private Profits From Public Works."