

# Allentown's Water Gambit: An Irresponsible and Risky Lease

Fact Sheet • September 2012

Allentown is considering a risky and potentially very costly ploy to raise money to cover some of its pension liabilities. Mayor Ed Pawlowski has proposed a 50-year lease of the water and sewer systems that he hopes will produce \$150 million to \$200 million in upfront cash for the city.<sup>1</sup> This money, however, is not cheap. Any upfront payment that the city receives is a costly loan that households and local businesses will repay through their water bills for decades. While Allentown's fiscal difficulties are certainly serious, the city must address the issue directly and avoid budget gimmicks like water privatization that will increase costs for generations of Allentonians.

**Taxed Through the Tap:** Pawlowski claims that because the lease would generate funds without a tax increase, "...the burden of this debt is not paid for by the citizens of Allentown."<sup>2</sup> This is simply untrue. Although taxes themselves will not increase, Allentonians will have to pay even more to cover the cost of the lease. They'll just pay the price through their water bills instead of their taxes. In effect, water privatization taxes households and businesses through the tap.<sup>3</sup>

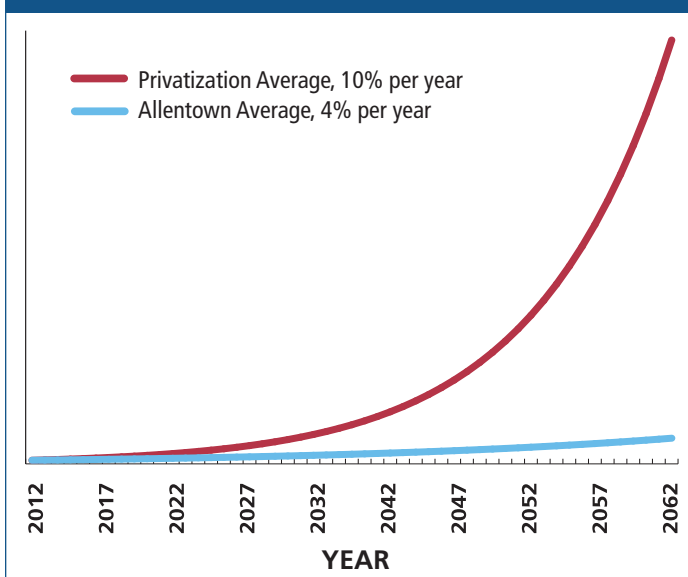
**Expensive Loan:** The upfront payment from a company is merely an expensive loan that Allentown households and businesses must repay with interest over the term of the contract.<sup>4</sup> Because privatized water systems generally are no more efficient than publicly run ones,<sup>5</sup> the private operator would cut services or hike rates to meet its profit goals.<sup>6</sup>

**Rate Hikes:** In Pennsylvania, water and sewer rates typically increase by 10 percent a year after privatization (see table on page 2). In Allentown, typical household water and sewer bills have increased by an average of only 4 percent a year since 1999.<sup>7</sup> Over time, this difference would add up. At these rates, by the end of the 50-year privatization contract, Allentown residents would be paying 16.5 times what they would have paid under continued public control (see Figure 1).<sup>8</sup>

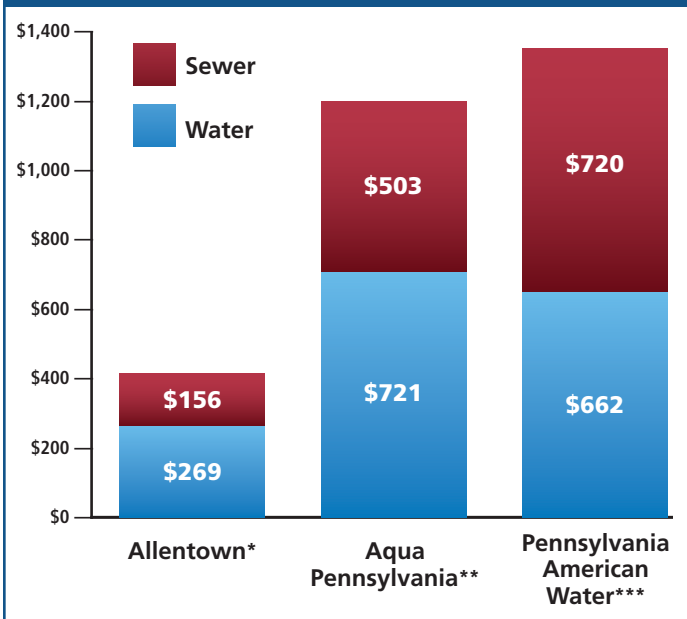
**Increased Bills:** Currently, Aqua Pennsylvania and Pennsylvania American Water — two large investor-owned water utilities that expressed interest in running Allentown's water and sewer systems<sup>17</sup> — charge two to three times as much as Allentown charges (see Figure 2). Compared to these private companies, public operation is saving the typical Allentown household \$800 to \$958 a year.<sup>18</sup>

**Impaired Service:** Over a 50-year lease, the water and sewer systems could deteriorate,<sup>22</sup> and the private operator could cut corners to increase its profits at

**Fig. 1. Diverging Rates Under Public and Private Control: How Annual Water Rate Hikes Add Up**



**Fig. 2. Water Bill Comparison: Annual Water and Sewer Bill for a Household Using 54,000 Gallons per Year AS OF AUGUST 2012**



\* Based on Allentown residential rates with quarterly billing<sup>19</sup>  
 \*\* Based on water rates in Aqua Pennsylvania's Main Division and the sewer rates in its Media Division<sup>20</sup>  
 \*\*\* Based on water rates in Pennsylvania American Water's Zone 1 and the sewer rates in the Coatesville division<sup>21</sup>

the public's expense. A private operator may attempt to cut costs by downsizing the workforce and scaling back employee benefits.<sup>23</sup> These practices could worsen customer service. Downsizing can slow responses to service requests and emergencies,<sup>24</sup> and scaling back compensation can impede the department's ability to attract qualified operators.<sup>25</sup>

**Locked Into the Deal for Decades:** A lease could interfere with Allentown's ability to respond to changing circumstances and protect the area's water quality.<sup>26</sup> Over a long-term lease, residents will vote generations of elected officials in and out of office, but they will have little recourse when the private operator performs poorly or fails to address their concerns.

**Fiscally Irresponsible Gimmick:** Allentown's water and sewer systems have nothing to do with the city's police and fire pension liabilities, and privatizing the water and sewer systems will not address the reasons why the pension fund is unbalanced. The lease scheme would increase the city's debt burden, while pushing costs off budget and onto generations of water users.<sup>27</sup> Water privatization is a false solution for Allentown's financial woes; it is a red herring that distracts

**Rate Hikes Following the Privatization of Large Pennsylvania Water and Sewer Systems<sup>A</sup> • AS OF AUGUST 2012**

Municipality SELLER	System	Corporation <sup>B</sup> BUYER	Date of Sale	Typical Annual Household Bill <sup>C</sup> (INFLATION-ADJUSTED 2012 DOLLARS) <sup>D</sup>		Increase (INFLATION-ADJUSTED 2012 DOLLARS) <sup>D</sup>			
				Before PUBLIC	After PRIVATE 2012	Increase	Percent Increase	Compound Annual Rate Increase	
Bensalem Township <sup>9</sup>	Water	Aqua America	Dec. 1999	\$104.76 (\$142.84)	\$668.27	\$564 (\$525)	538% (368%)	16%	
Bristol Borough Authority <sup>10</sup>	Water	Aqua America	Jan. 1997	\$119.52 (\$172.39)	\$721.42	\$602 (\$549)	504% (318%)	12%	
City of Coatesville Authority <sup>11</sup>	Water	American Water	March 2001	\$319.86 (\$416.58)	\$661.90	\$342 (\$245)	107% (59%)	7%	
	Sewer	American Water	March 2001	\$185.44 (\$241.51)	\$720.29	\$535 (\$479)	288% (198%)	13%	
Media Borough <sup>12</sup>	Water	Aqua America	May 1995	\$232.00 (\$349.80)	\$865.19	\$633 (\$515)	273% (147%)	8%	
	Sewer	Aqua America	April 2001	\$240.00 (\$311.33)	\$537.60	\$298 (\$226)	124% (73%)	7%	
West Chester Area Municipal Authority <sup>13</sup>	Water	Aqua America	Jan. 1998	\$205.00 (\$291.11)	\$721.42	\$516 (\$430)	252% (148%)	9%	
<b>AVERAGE<sup>14</sup></b>				Feb. 1999	\$201 (\$275)	\$699	\$499 (\$424)	298% (187%)	10%

A Increases in typical annual household water or sewer bills for the five largest Pennsylvania municipalities that sold their water or sewer systems to for-profit companies between 1990 and 2010<sup>15</sup>  
 B Current parent company  
 C Based on a water usage of 54,000 gallons a year (4,500 gallons a month), except for Media Borough, whose water bill is based on a usage of 68,000 gallons and sewer bill is based on a usage of 60,000 gallons a year  
 D Inflation-adjusted to June 2012 dollars, based on the Consumer Price Index<sup>16</sup>

public officials from finding a real solution. Allentown should keep local public control of its water and sewer systems.

## Stop the Mayor from Rushing Into a Bad Deal

Allentown faces some tough fiscal decisions to balance its budget and meet its pension obligations. While these decisions are understandably daunting, city officials must rise to the challenge and face the issue head-on in an open and transparent manner. They must avoid budget gimmicks like leasing the water system, which merely creates the illusion of balanced budgets while increasing future costs for households and local businesses. Instead of mortgaging its water resources, Allentown needs a real solution that fosters financial sustainability.

## Take Action

Act now to stop the private takeover of one of your most valuable public resources — your water. Tell the city council not to privatize the drinking water and wastewater systems.

## Endnotes

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- 7 Calculation of annual water and sewer bills in 1999 and 2012 for households billed quarterly and using 54,000 gallons a year, based on: Allentown (PA). "Official Statement, General Obligation Bonds, Series 1999." September 15, 1999 at A-9 and A-11; Allentown, Pa. Ordinance No. 14938. November 2, 2011; Allentown, Pa. Ordinance No. 14939. November 2, 2011.
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- 10 Calculation based on: Aqua Pennsylvania, Inc., 2012 at 4 and 20; Gelles, 2005; Philadelphia Suburban Corporation. [Press Release]. "Philadelphia Suburban closes Bristol acquisition." December 19, 1996.
- 11 Calculation based on: City of Coatesville Authority (PA). "Water Revenue Bond, Series of 1998." January 29, 1998 at 9; Kauffman, Gerald J. and Kareem Ali. "Economic Synthesis of Water Rates in Delaware and Surrounding River Basins." University of Delaware, Institute for Public Administration, Water Resources Agency. August 21, 2000 at Appendix A; Pennsylvania-American Water Company. "Rates and Rules Governing the Distribution and Sale of Water." Supplement No. 266 to Tariff Water-PA P.U.C. No. 4. Effective July 1, 2012 at 9 and 12 to 12B; City of Coatesville Authority (PA). "Sewer Revenue Bond, Series of 1999." January 28, 1999 at 10; Pennsylvania American Water. Coatesville Wastewater District. Notice to customers about rate increase. June 27, 2008; Pennsylvania-American Water Company, City of Coatesville Division. "Rates, Rules and Regulations Governing the Furnishings of Wastewater Collection and Disposal Service." Supplement No. 7 to Tariff Wastewater PA P.U.C. No. 8. Effective January 1, 2012 at 4.1; Pennsylvania-American Water Company. [Press Release]. "Pennsylvania-American Water Company purchase of Coatesville water and wastewater assets final." March 22, 2001.
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- 19 Calculation for households billed quarterly, based on: Allentown, Pa. Ordinance No. 14938. November 2, 2011; Allentown, Pa. Ordinance No. 14939. November 2, 2011.
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