

*Has the Bubble Finally Burst? An Examination of the Failure of Privatization of Water Services Delivery in Atlanta (U.S.A) and Hamilton (Canada)*

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## ***Introduction:***

The last few years have witnessed significant attempts by a number of municipalities across the globe to reverse or renounce private sector involvement in water services delivery to citizens. In 2004, for example, the City of Hamilton in Ontario, Canada, decided not to renew its contract with America Water Services after 10 years of “marriage” (Ohemeng and Grant 2008). In September 2008, the Mayor of Paris, France, announced that in June 2009, the City’s water delivery services would be restored to public ownership. In short, the contract that the City of Paris has with Veolia and Suez, two well-known transnational corporations in the water delivery business, will not be renewed. This is after Grenoble, another city in France, had abrogated its contract with a private sector corporation for the delivery of its water (Avrillier 2005; Hall and Lobina 2001). There are similar experiences across the rest of Europe and North America, as well as in some developing countries (Braadbaart 2005; Candeias et al. 2008; Cohen and Eimicke 2008; Hachfeld 2008; Kirkpatrick *et al.* 2006; Lobina and Hall 2007; Mulreany *et al.* 2006).

What makes this re-municipalization of water services delivery baffle many is that, in the not too distance past, privatization or private sector involvement in the water business was touted as the best service delivery option for cash-strapped municipalities. Furthermore, the involvement of the private sector was seen as the panacea for the perceived inefficiency, ineffectiveness, and unaccountable nature of the public sector (Araral 2008; Parker and Saal 2003; World Bank 1995). As noted by Rodriguez (2004:1), “in some instances, there has been a relentless drive for ‘privatization’, promised almost as a panacea, with no regard to whether the water sector or specific projects might appeal

to private investors, even under more auspicious condition.” The idea culminated in what scholars described as New Public Management (NPM), undertaken by the new political right, its key proponents being Margaret Thatcher of Great Britain and Ronald Reagan of the U. S. (Hood 1992; Pollitt; Savoie).

Under this new philosophy, the assumption was that the perceived inefficiencies and ineffectiveness in service delivery exhibited by the public sector could be overcome in no time by the private sector, which had shown tremendous leverage in service provision. There was also the notion that bringing the private sector into service delivery would dismantle the monopoly enjoyed by public organizations over such services. Thus, it was projected that opening up service delivery space would create much-needed competition. In such a competitive environment, failure to find innovative ways to deliver services would automatically lead to an organization’s demise. In essence, such a competitive environment was expected to promote the idea of the “survival of the fittest,” which would inevitably ensure better service delivery at a lower cost to consumers, since organizational survival would be paramount.

It is within this milieu that governments in developed and developing countries and at all levels of society, embarked upon the search for alternative forms of delivery for their public services. This resulted in the privatization, or contracting-out, of a number of such services (Megginson and Netter 2001). In spite of this, and as already indicated, many of the public services that were privatized are being returned to public delivery, not only in developed countries but in developing ones as well. Notably, this return from private to public hands is occurring more and more in the area of water and wastewater delivery.

Why are municipalities de-privatizing their water services delivery? Did the promises of privatization fail? We argue the privatization of water services delivery was based on the false premise that the market is more efficient, effective, and accountable than the public sector, and that the private sector failed in no uncertain terms with respect to its promises to deliver (Vinnari and Hukka 2007). Furthermore, the idea of reduced costs through private sector involvement in service delivery, and the so-called savings that the private sector promised, could not be fulfilled. This failure has led to what Candeias *et al.* (2008) have described as the “crisis of privatization.” We will support this argument using two cases drawn from Canada and the United States: Hamilton and Atlanta. These cases merit our attention in view of their nature and also for the fact that they represent the largest water privatization deals in each of the two countries. Moreover, they were supposed to be the models, which other municipalities were expected to emulate. In short, the two cases provide a valuable lesson in the politics of privatization to policy makers who may be contemplating following this path in service delivery.

The paper is divided into four parts: the first part discusses the concept of privatization and what it is intended to achieve. This is not an in-depth analysis as privatization has been accorded a tremendous amount of attention in the New Public Management literature. In short, the discussion here is more a summary of what has already been put forward by scholars interested in the subject matter. What follows is a brief history surrounding the two cases. The aim is to provide a little background for the reader. The third part looks at what has happened in the two cities after de-privatization, while the final section provides some analysis and concluding thoughts.

## ***What is meant by Privatization and De-privatization?***

A significant amount of literature has been produced on the issue of privatization, and yet, no consensus has emerged among scholars as to what the concept actually means. This has created what may be described as a definitional quagmire, which continues to bedevil scholars interested in the subject. It is not our intention to weigh into this definitional quandary; however, we find it necessary here to define the concept, so that readers will understand what we mean. We follow a number of scholars who have defined the concept in broader, rather than narrower, terms. In the latter sense, the concept denotes the complete sale of a public service delivery entity to a private sector organization, as witnessed in many European and developing countries. In the former sense, it means the opening up of the public sector arena to private sector entry. In this way, privatization refers to the “transfer of assets and/or service functions from public to private hands. It includes, therefore, activities that range from selling State Owned Enterprises to contracting out public services with private contractors” (Hodge 2000: 14). To be more specific, we view the idea as a government’s attempt to use the private, and other independent sectors (voluntary and non-governmental organizations), to deliver public services with the aim of improving the content and implementation of such services or public programs (Henry 2001: 95).

De-privatization is the opposite of privatization as defined above. It simply refers to the return of a privatized public service back to in-house delivery, or to the public hand. Some scholars refer to this phenomenon in other ways. Martin (1999) and Hefetz and Warner (2004), for instance, see this process as contracting back-in. Martin (1999) sees contracting back-in as competitive bidding, where local employees contract to bring

the work back in-house. In short, it is an attempt to use the market mechanism to reverse privatization. We, however, completely disagree with this view. We believe that bringing service delivery back in-house (to public delivery) is a consequence of public displeasure surrounding private delivery of a service. We concur with Hefetz and Warner (2004) who assert that contracting back-in, in all cases, results from disappointment with service quality, or difficulties with contract specification and monitoring. In a number of cases, Hefetz and Warner (2004) also found that internal process improvements through labour-management cooperation were associated with the decision to bring service delivery back in-house (173).

As already mentioned, the idea of privatization was premised on four fundamental grounds: efficiency, effectiveness, cost-savings, and competition,. In short, these four words constituted the main menu on the privatization table. They also served as grounds for the privatization decisions in Atlanta and Hamilton and have received a good deal of discussion in the literature on alternative service delivery. In the next few pages, we will discuss these four issues as they relate to governments' attempt to alter service delivery in the public sector. In a nutshell, the question we intend to address here is why did governments embrace privatization in the first place?

The first important point, which seems to have received significant discussion as the reason behind governments' privatization programs, deals with efficiency (Araral 2008; Braadbaart 2002; 2005; Megginson and Netter 2003; Shirley 2000). The attention accorded efficiency is as old as many of the debates surrounding the role of government in economic development. Efficiency has thus come to be understood more generally in economic terms. In this sense, it refers to the use of resources in such a way so as to

maximize the production of goods and services (Mulreany 1991). As noted by Sullivan and Sheffrin (2003), a system can be called economically efficient if (a) no one can be made better off without making someone else worse off, (b) more output cannot be obtained without increasing the amount of inputs, and, (c) production proceeds at the lowest possible per-unit cost (15). In a nutshell, an economic system can be said to be more efficient if it can provide more goods and services for society without using more resources. Market economies are, therefore, generally believed to be more efficient than other known alternatives since they tend to utilize fewer resources in the provision of goods (Hardiman & Mulreany 1991; Niskanen 1971; Sullivan & Sheffrin 2003; Wolfe 1979).

According to Araral (2008: 1), the efficiency idea suggests that public service delivery will improve under private ownership because the private sector is “obviously” more efficient than the public sector. For Braadbaart (2002) also, the argument centers on the notion that more private sector involvement in public service delivery, especially in utilities, will spur industry performance since private utility management is inherently more efficient than public management. In addition, privatization goes hand in hand with efficiency-enhancing competition. Moreover, privatization provides a catalyst for much-needed institutional reform, which will then lead to the nurturing of a healthy arms’ length relationship between politics and business.

Writing on the need for privatization in the water sector in developing countries, Mary Shirley (2007) has noted that the rampant inefficiencies, waste, and underinvestment common within such sectors has led most economists to conclude that water utilities should be managed as enterprises with incentives to operate efficiently at

100% coverage of the population. According to Shirley, many economists believe that regulated private operation or ownership could increase a utility's incentives to demand a return on assets, to expand coverage, and to operate efficiently. In many cases, therefore, the official reason for engaging in privatization is to relieve the state from the burdens of inefficient state enterprises and to create revenue for the government.

A second factor, related to efficiency, is effectiveness. Effectiveness is much more concerned about the timing of service delivery, but is linked to efficiency since such timing may require either fewer or more resources. Effectiveness is one of the key drivers of novel alternative arrangements for service delivery; hence, demonstrating effectiveness and reporting on it are key requirements for delivery organizations. Notwithstanding its perceived importance, effectiveness is an organizational dynamic that haunts managers, since there is no consensus as to what the term actually means or how it should be measured. Various explanatory models have been developed (Njoh 1994); however, with respect to privatization, effectiveness seems to refer generally to how organizations use resources to achieve their goals. Thus, it could be said to relate to the timely delivery of service to clients or citizens.

A third factor in the drive for privatization is the potential savings that may accrue to a government and which can be used to improve a government's financial position (Bozeman 2007; Megginson and Netter 2003; Moore 1987). Ferris and Graddy (1986) have identified three key reasons governments use for coming out in favour of the decision to privatize services. These are cost-savings related to "scale economies, sector differences in labour practices, and competition among suppliers" (332). However, the price of these cost-savings is a reduction in government's ability to manage the service



delivery process, the quality of the service, and the distributional objectives of the service. Where service discontinuity is a problem, joint production can provide cost-savings while providing some protection against service disruption. Loss of quality control can be minimized through contract specification and performance monitoring, but these options are affected by; (a) the tangibleness of service outputs, and (b) the complexity of the product. The ability to achieve distributional goals (*e.g.*, targeting benefits to specific social groups) is also diminished if a private firm produces the service, as such firms are inclined to administer benefits as cheaply as possible, “not in any politically optimal way” (333).

Finally, the idea of creating competition, which will ultimately lead to achieving the three objectives discussed above, has also been used as a rationale for privatization. There is a voluminous amount of literature on the impact of competition (Hart 1983; Li and Xu 2002; Sclar 2000; Vickers 1995; Vickers and Yarrow 1988), and it is consistently claimed that there is a direct correlation between privatization and competition, in that competition increases the gains from privatization and vice versa (Li and Xu 2002; Vickers and Yarrow 1988.) Hart (1983), for example, argues that competition reduces the slack resulting from the conflict of interests between owners and managers, when owners are not able to monitor the managers’ actions. Warzynski (2003) is of the view that competition creates interdependence among firms so that firms in which agency costs are high will be disciplined by firms run directly by an owner, or where better cost-monitoring exists. In Vickers’ (1995) opinion, competition improves incentives for efficiency by allowing relative performance evaluation, and enriches the information base on which contracts may be written.

While many believe that the nature of the water sector does not lend itself to the kind of competition envisaged under privatization, some scholars think otherwise (Cowan 1997; Noll 2002). Cowan (1997) is of the view that competition can be harnessed to bring needed efficiency, effectiveness, and cost-savings to the sector. He has thus identified five types of competition that can be applied to the water industry. These are yardstick competition, competition for the market, contracting out of services, capital-market competition, and product-market competition (85).

It is within the context of these four factors, efficiency, effectiveness, cost-savings and competition, that we intend to analyze on what took place in Atlanta and Hamilton with respect to water and wastewater privatization, as well as with the decisions and processes associated with de-privatization. What follows is a brief discussion on the background and the privatization and de-privatization processes in the two cases.

### ***Privatization and De-privatization in Atlanta: Background Analysis<sup>1</sup>***

The privatization and de-privatization process surrounding Atlanta's water and wastewater service delivery has been well documented. It is, therefore, not our intention to revisit or discuss the entire case. What we intend to do is to provide a short summary of the events that led to the privatization and subsequent de-privatization of services.

Atlanta is one of the many U.S. cities that had problems delivering water to its citizens during the 1990s. This problem emanated from its dilapidated water

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<sup>1</sup> This section draws significantly on a number of works particularly, Steven Cohen and William Eimicke (2008) *The Responsible Contract Manager: Protecting the Public Interest in an Outsourced World*, Washington, D.C; Georgetown University Press, chapter 11, and Steven Labovitz (1999) Privatization of the City of Atlanta's Water System: A Cost Savings Initiative and a Plan for the Future, WRPMD 1999 — Preparing for the 21st Century, Proceedings of 29<sup>th</sup> Annual Water Resources Planning and Management Conference

infrastructure, which, at the time, serviced more than 142, 000 customers with over 2,400 miles of pipe. Before privatization, the City owned and operated two water treatment plants, which had a combined capacity of 184.5 million gallons per day. It also had a joint ownership with Fulton County in another water treatment plant. These systems were operated by the Atlanta Department of Water and the Department of Water Works, under the auspices of the Division of Wastewater Services and Sewer Division (Labovitz 1999).

Due to enormous population growth and the lack of needed investment in the water sector, the City began to experience difficulty in meeting its obligation as a water and wastewater service provider, which, by 1997, amounted to about \$50 million a year. Furthermore, the City had difficulty complying with stringent state and federal environmental standards and thus faced a number of lawsuits from the Environmental Protection Agency (Labovitz 1999). As a result of this seemingly desperate situation, Mayor Bill Campbell (who was initially against privatization), decided to privatize the entire water system and one of the wastewater treatment plants in December of 1997. This was by way of contracting-out management of operations. The remaining two wastewater facilities and the sewer system were to be re-engineered (Cohen and Eimicke 2008; Labovitz 1999; Ramage 1998; Segal 2003).

As explained by Cohen and Eimicke (2008: 187), “Atlanta decided to privatize its water services in an attempt to solve a fiscal crisis rather than to deal with a water supply or quality problem (although there was a potential environmental crisis looming in the background).” This decision was taken after a consultant hired by the City to assess the water and wastewater operating systems had recommended a number of alternative

mechanisms to meet the City's need. According to Labovitz (1999: 1), "the consultant team constructed eight alternatives for cost-savings that involved a combination of re-engineering and reorganization of existing systems and management, outsourcing of certain non-core services, and system management and contract operations by private entities."

The process of privatization involved the invitation of a number of interested companies to bid for the delivery of water services. This was after the City had issued a combined Request for Qualifications (RFQ) and Request for Proposals (RFP) in March of 1998. A number of companies responded to this request and submitted tenders for the contract, which was eventually won by United Water, a subsidiary of Suez International (United Water Resources News 1998). United's success was attributed to its bid being the lowest among the five competitors (Brooks 2003). The 20-year contract was worth \$21.4 million per year, and promised the City an annual savings of nearly \$20 million, as well as an overhaul of its deteriorating water systems. In all, the city was expected to save more than \$400 over the duration of the contract (Company News 1998a; 1998b).

Under the contract, United Water was expected to operate, manage, and maintain the water supply system, while at the same time being responsible for raw water supply, treatment and distribution, billing, collection and other customer services. As well, the company was to undertake certain capital repairs and improvements (United Water Resources News 1998). The City, on the other hand, was responsible for capital improvement planning, rate setting, negotiating and providing legal support for all intergovernmental and wholesale water agreements, developing and maintaining policy guidance, and all other related governmental functions (Labovitz 1999: 6).

Many believe that the City's plan to use a private contractor to deal with its water and wastewater problem was an ideal solution, saving the City money and relieving it of the onerous task of service provision, in order to focus on governance (Labovitz 1999; Segal 2003). As noted by Labovitz, "Mayor Campbell's plan for Atlanta's water wastewater and sewer systems made sense for the City because it (a) enabled the City to minimize potentially large future rate increases, (b) generated immediate savings to help fund a major bond issue, and (c) allowed Atlanta to take advantage of intense competition for contracts to manage the water system" (1999: 8). Whether this was true or not would be evidenced by later events.

For four years, from 1999 to 2003, Atlanta's water was delivered by United. During this period a number of problems surfaced, the most important of which concerned the company's overall poor performance with respect to service delivery, its broken promises surrounding capital investments, and its failure to generate the promised cost-savings for the City. A number of things that were supposed to have been undertaken by United were not completed. For example, under the contract, United was expected to install new water meters for customers. Throughout the contract period, the company was able to install only 750 per year, which, according to one official, the City could do in a month. There were also numerous boil water notices or alerts to consumers, which made them feel that they were not getting their money's worth for the services they were paying for. United Water focused more on developing a maintenance management system, rather than on the needs of customers. As one official commented, "there was little allegiance to customer service. The customer service was not robust just

like the billing system.”<sup>2</sup> The official did, however, credit United for its maintenance management system, which made up for the shortfall in managers, most of whom moved away from Atlanta after United took over service delivery.

Although many of these problems were brought to the attention of United Water early on after Mayor Franklin assumed office, and as much as United Water attempted to improve upon its overall performance, the company still fell short in terms of its contractual commitments. This was a huge disappointment for city authorities. As summed up by Jehl (2003: A14), “instead of public savings and private profit, a deal reached in 1999 between Atlanta and United Water resulted in bitter disappointment for all sides, not least of all consumers.” With this, the City and United mutually decided to end the partnership (City of Atlanta 2003; Jehl 2003; United Water 2003).

### ***Privatization and De-Privatization in Hamilton***<sup>3</sup>

In the early 1990s, as a result of fiscal restraints due to an economic downturn, local politicians in Hamilton decided to consider involving the private sector in the delivery of municipal services. While politicians were pondering the issue, Philip Utility Management Company (PUMC) and its parent Philip Environmental Inc. submitted an unsolicited proposal to run the area’s water and wastewater treatment plants, pumping stations and reservoir, on a contract basis. The proposal also included several guarantees with respect to enhancing the region’s economic development. These included, among other things, an annual operating savings of \$500,000, the creation of 200 full-time jobs,

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<sup>2</sup> Interview with an official of Atlanta Water Department

<sup>3</sup> The majority of the information in this section was taken from a previous article by the authors entitled “When markets fail to deliver: An examination of the privatization and de-privatization of water and wastewater services delivery in Hamilton, Canada”, *Canadian Public Administration* (2008) 51(3) 475-499.

and a minimum \$15 million investment in the community (City of Hamilton 1994; Peters 1994).

At the time of the proposal, “Hamilton’s water and wastewater system was poorly managed, over staffed, and persistently out of compliance with provincial regulations” (Brubaker 2003: 3) and many, including the region’s union and management workers who would be rehired by the private company, felt that it would be in the City’s best interest to accept Philip’s offer. Thus, in support of what was seen as a possible world showcase for economic development, Philip was awarded (without tender) a ten-year; \$180-million contract to operate the region’s water systems. Notably, this was in spite of the fact that Philip “had absolutely no record of accomplishment of running any equivalent sized water facility” (Anderson 1999: 3).

Notwithstanding the enthusiasm and overwhelming political support for the Philip deal, there were two parts of the contract that generated a good deal of concern and debate: Article 4.05, which capped the company’s responsibility for facility maintenance at \$10,000 per year; and, article 5.01, which set out a formula for the sharing of any cost cost-savings between the municipality and the company. Under the formula, Philip would receive sixty percent of any generated cost-savings; however, if cost-savings reached twenty percent of the annual budget, Philip’s share would increase to eighty percent. Many felt that Article 4.05 allowed Philip to delay maintenance work at water and wastewater facilities until the costs exceeded the \$10,000 limit. Article 5.01 was a potential incentive for Philip to cut costs in areas such as labour (Anderson 1999).

By 1995, Philip had only fulfilled one half of the promises set out in the 1994 contract proposal. Of greater note, however, is the fact that one year into the contract,

many employees at the water and wastewater facilities began to express concern over poorly maintained equipment as well as deteriorating health and safety conditions. The problems were exacerbated by the fact that a significant number of employees had already been laid off by the company in order to save money. Over the following years, staff downsizing became such a major issue the local International Union of Operating Engineers went on strike in 1999, to protest further layoffs.

In addition to the staffing issues outlined above, a pumping system failure at the main sewage treatment plant in 1996 flooded a number of homes and businesses, and dumped several million litres of raw sewage into Hamilton harbour and surrounding wetlands. The sewage spill was claimed to be the worst ever in Hamilton's history (McNeil 1996: A1), and, while Philip was later deemed to be responsible, taxpayers ended up shouldering the cost of the clean-up as well as the resulting liability claims for damages (Peters 1996: B3).

Complicating these issues was the fact that, in 1999, Philip was acquired by Azurix Corp., a subsidiary of Enron, without any public tendering process. Azurix agreed to fulfil the original contract promises made by Philip, as well as to settle the outstanding insurance claims with respect to the 1996 sewage spill. Prior to fulfilling its promises, however, Azurix was sold to American Water Services (AWS) in 2001, and, although the change in control of the water and wastewater facilities required approval by Hamilton's City Council, it was deemed in the City's best interest to approve the change as failure to do so "would jeopardize financial benefits to the city and invite a costly lawsuit" (McGuinness 2001: A9). Controversy continued however, as, at the time Azurix was



being taken over by AWS, that company was also involved in a takeover bid by a German firm – RWE.

Prior to the renewal date of the ten-year contract in 2004, Hamilton’s public works department began to look at new arrangements surrounding the operation of its water and wastewater operations. Two approaches were proposed: a contract model, which would see service delivery provided (through a tendering process) by private operators; and, a municipal model, which would bring operations back in-house. In spite of the difficulties encountered under the Philip contract, as well as some serious political opposition, city council voted in favour of maintaining the contract model. However, in order not to repeat some of the mistakes made previously, the city placed very stringent requirements on its “request for proposals” set out in 2004. Ironically, the competitive procurement process was so rigorous that none of the four final proponents, which included AWS, managed to qualify. The AWS bid was, incidentally, more than double that of the existing contract, and well above the city’s anticipated budget (City of Hamilton, Risk Management Services 2004).

Eventually, on advice of city staff and after an attempted appeal and court injunction by AWS, Hamilton council voted to return its water and wastewater operations to municipal control in September of 2004.

### ***The Failure of Privatization: Comparing Atlanta and Hamilton:***

We have discussed the reasons behind the adoption of privatization as a policy option by the municipal governments of Atlanta and Hamilton. In this section, we look at how the four factors – efficiency, effectiveness, cost-savings and competition – played

out in our case studies. The aim is not to denigrate privatization as an alternative method for the delivery of government services, but to question the blanket application of such a method to *all* areas of service delivery due to the perceived superiority of the private vs. public sector.

We have already explained that one of the key drivers of privatization relates to the pursuit of efficiency, which we defined in economic terms whereby an entity is said to be more efficient if it can provide more goods and services for society without using more resources. We must add that in such a scenario, we expect all parties to realize significant savings based on how the service is delivered. How did this turn out during the execution of the contracts in Atlanta and Hamilton?

In Atlanta, efficiency became the rallying cry for proponents of privatization. Commenting on the contract after it had been signed and delivered, the ex-mayor of Atlanta, Mayor Campbell noted, “although the process has concluded, this day really marks the beginning of a partnership which will result in tremendous savings that will reduce the amount our water customers will have to pay in the future. Our citizens and ratepayers will benefit by improved technology and more efficient and innovative approaches to management. This contract will be a win-win situation for all involved” (United Water 1999). Was this the case? The answer is unequivocally no.

As has been noted already, a review of the performance of United showed that the City saved about \$10 million a year, which was about half of what it was promised. This saving did not come from improved performance but from a policy of early retirement, which significantly reduced the number of workers that United inherited from the City. For instance, at the time United Water assumed operation of the water facilities, the City

had about 750 employees. Almost one quarter of these employees were retired through an early retirement policy initiated by the company. Further reductions in staff were undertaken so that, by the time the contract was terminated, United only employed about 350 workers. All of this happened after United had promised not to lay off workers (Gleick *et al.* 2004).

Through this early retirement policy and regular layoffs, United Water was able to realize some savings, which were passed on to the City; however, these so-called savings were not achieved through the efficient delivery of services. While we must concede that the ideal number of employees for the City was perhaps 350, it should be noted that the reduction in staff did have a negative impact on service delivery. For example, the installation of new water meters for consumers could only be undertaken by United at the rate of 750 per year. The City of Atlanta currently completes the same number of installations in one month. This certainly was never identified as by United Water as a potential issue during the contract negotiations.

A similar situation took place in Hamilton during its contract with American Water Services and its predecessor Philip Utility Management Company. In the first place, Philip had no previous experience with respect to the management and operation of such a large water and wastewater delivery system, and, while a lack of experience does not necessarily translate into an inability to realize efficiencies, it certainly makes it challenging under the circumstances.

As with United Water in Atlanta, efficiency in the Hamilton case was equated primarily with cost-savings through staff downsizing, although, in taking over operation of the City's water and wastewater system, Philip made no mention of layoffs. In fact, the

company promised to (a) guarantee employees their present wages (and in some cases to increase them), (b) create an employee profit-sharing plan, and (c) create over 150 new jobs. Nevertheless, by 1997, about 50 jobs had been eliminated within the water and wastewater delivery system, which resulted in a cost-savings estimated to be in the area of \$700,000 (Hoath 2000). This, obviously, did not please the local employees' union, but, more significantly, it angered local politicians who were clearly embarrassed by the fact that half of those staff cuts had been undertaken at a publicly-owned treatment facility without their knowledge (Arnold 1996: B2).

The question of efficiency was clouded further by a stipulation in the original contract that placed the City squarely on the hook for any facility maintenance costs exceeding \$10,000 per year. This, many claimed, was essentially an enticement for Philip to procrastinate with respect to addressing issues until costs exceeded the stipulated limit – efficient with respect to the company's operating costs, but hardly so for the City of Hamilton. The downside of all the foregoing issues surrounding efficiency became evident after only a few years when employees at the treatment plant became concerned over health and safety issues related to deteriorating plant conditions. The problems culminated with the pumping system failure at the main wastewater treatment plant, which was attributed to a lack of qualified operators. The failure backed up Hamilton's sewers and left taxpayers on the hook for clean-up costs, as well as those associated with legal claims.

In terms of economic efficiencies then, the Hamilton case was a disaster. Instead of generating savings, the private operator's attempt to reduce its own expenditures ended up costing the City more money in terms of the unintended consequences.

Effectiveness has also been recognised as one of the reasons for privatization. Effectiveness is concerned about the timely delivery of a service in such a way that pleases consumers. Thus, effectiveness of a service may be determined to a large degree by the level of customer satisfaction surrounding delivery. We have already noted that in Atlanta, United Water's focus was more on maintenance management; hence, there was a neglect of customer needs. During the term of the service delivery contract, for example, customers complained bitterly about the quality of water they were receiving and the number of boil water alerts shot up significantly. As conceded by Chris New, the Deputy Water Commissioner in Atlanta, "my biggest concern is a lot of people have lost confidence in the water itself. Over the past year, we've had so many boil water advisories and discolored water around the system" (Public Citizen 2003: 3).

United Water had also promised that there would not be any increases in water rates as these could be averted through cost-savings. Yet, after taking over operations, this promise evaporated into thin air as sewer bill rates rose consistently each year that United Water had the contract – on average, about 12% annually (Public Citizen 2003). These problems led many consumers to lose confidence in the water and wastewater service delivery systems, which residents described as poor, unresponsive, and fraught with breakdowns including an epidemic of water-main breaks (Jehl 2003).

The continuous erosion of public trust in the company led the City to spend \$1 million to hire inspectors to verify United Water's reports. The inspectors produced such a damning account of the company's performance that it led City officials to conclude it was time to end the relationship.

The City of Hamilton had fewer problems than the City of Atlanta in terms of issues surrounding water quality and excessive water delivery rate increases; however, a number of problems did occur which were related to the management and operation of the water and wastewater treatment system. Many of these involved only minor disruptions in service delivery and were attributed to the system's ageing infrastructure. Nevertheless, the major sewage spill alluded to earlier, which was deemed to be Philip's fault, dealt a serious blow to citizens' faith in the ability of the private company to effectively deliver the area's water and wastewater services.

Proponents of privatization believe that the policy will lead to cost-savings for private delivery entities, as well as for consumers of the privatized service. In short, the idea is that the use of a private operator will result in a decrease of management costs due to the significant transfer of technology, *i.e.*, automation, energy savings, etc., and improvements in the organization of the service, which will occur with the implementation of a project. The cost-reduction will thus be passed on to consumers and hence may reflect on what such consumers will be paying in service fees.

There is no evidence that such cost-savings took place in Atlanta and Hamilton. We have already noted the so-called savings promised by the private companies did not lead to any appreciable savings for the cities. In Atlanta, for example, United Water promised a savings of about \$21 million during the duration of the contract. However, the City realised only \$10 million. This savings, one must say, did not emanate from the introduction of new technologies, but through the early retirement policy and a general reduction in labour, as well as from slashing the amount of training provided to remaining employees. According to one official, this level was far below the training

requirements called for in the contract. Furthermore, the savings were never passed on to consumers as United Water began to bill the City for a number of capital works it claimed to have completed. At one point, it tried to add \$80 million to the contract to recoup some its supposed expenditures. This, the City refused. Notwithstanding this, United Water again decided to charge \$80 million for additional expenditures on capital works, which was again refused by the City's Water Commissioner.

In addition to these payment requests, United Water billed the city \$37.6 million for additional service authorizations and capital repair and maintenance costs. The city paid about \$16 million of those costs and withheld payment for the rest – \$21.7 million. The city argued that the works for which United Water was charging had either not been completed or possibly not even started at the time the request was made (Segal 2003).

The City's investigation into these payment requests revealed other instances of improper billing. For instance, routine maintenance was billed to the city as "capital repairs" (Public Citizen 2003). It was discovered further that United Water personnel, on Atlanta's payroll, were also working on United Water projects outside of Atlanta. Public Citizen (2003) sums up the failure of privatization to full its promise of savings to Atlanta:

Even after slashing the workforce to dangerously low levels, failing to fulfill maintenance and repair duties called for in the contract and successfully billing the city for millions more than the annual contract fee, the much-vaunted savings from privatization didn't materialize, and the promise that a rate hike could be averted through savings turned out to be empty.

In view of the neglect and the lack of savings from United Water, the City is now spending millions to upgrade its systems – something that United Water should have undertaken. Atlanta has been put in a situation that calls for an increase in water rates to cover its costs.

In Hamilton, cost-savings associated with private management and operation of the City's water and wastewater services did not materialize either. Aside from the unanticipated taxpayer burden resulting from the clean-up costs and legal claims associated with the major sewage spill (about \$2.5 million), it is difficult to see how Philip actually saved regional taxpayers \$500,000 in annual operating savings promised under the contract.

As noted previously, under Article 5.01, the company was to share cost-savings with the city based on a sixty/forty-percent formula. If cost-savings reached twenty percent of the annual budget, Philip's share would increase to eighty percent. The problem was that cost-savings were achieved by staff downsizing (which has been cited as a cause for the sewage spill), as well as by decreasing repairs and maintenance at the treatment facilities by a factor of twenty-five percent (which caused unsafe conditions). Some savings were made by way of closing the region's sludge incinerator, as it required \$10 million in repairs. Philip then began trucking the sludge to a landfill site, which saved about \$60 per ton on a production of about 150 tons per day. Although lauded as a financial gain for taxpayers under the operating agreement, Philip itself still received sixty percent of the savings (Poling 1996, B2). Notably, however, the decision to close the incinerator did not come from Hamilton's council, but was made by Philip and regional bureaucrats (McNeil 1996, C2). Moreover, during the same period, transportation and disposal costs for the solid waste generated by the treatment plants had increased by 500% - a clear benefit to Philip, which supplied the transportation by way of a sister company (Hoath 2000). Thus, as like the City of Atlanta, the taxpayers in Hamilton were not able to capitalize on the promised cost-savings associated with private



service delivery. In fact, it would appear that the many methods employed by the Philip to circumvent or exploit the terms of the contract resulted in a net loss to the City itself.

The final benefit that privatization promises is that which is related to competition. Competition, as already discussed, is intended to act as an incentive – ensuring that public companies remain innovative in order to consistently meet the expectations of public officials and consumers through more effective and efficient service delivery. Competition is, therefore, expected to lead to price reductions for consumers (Noll 2002). Notwithstanding the advantages of competition, however, some scholars believe that the nature of the good to be delivered can actually thwart competition (Ohemeng and Grant 2008). Considering that water and wastewater service delivery essentially constitutes a natural monopoly, it is evident that competition may be absolutely impossible (Lobina and Hall 2008).

Scholars who assert that there can be competition in the delivery of water look at cities where water vendors co-exist with piped water systems. It must be noted, however, that water vendors usually operate only in neighborhoods without access to piped water, rather than in direct competition with the delivery system itself. Noll (2002) points out that water systems with multiple reservoirs could be made competitive by treating each reservoir akin to an electricity generator. A decentralized competitive wholesale water market could then direct water to the delivery network of pipes, the equivalent of a centralized grid (46-47).

In both Atlanta and Hamilton, the kind of situation that calls for the co-existence of water vendors and city suppliers was non-existent. The cities enjoyed a complete monopoly over delivery of the service. This monopoly was passed on to the private sector

once the respective contracts were signed. In essence, it was simply a movement from public to private monopoly; however, such a movement has much broader implications for public policy, citizens participation, and local democracy (Ohemeng and Grant 2008; Page and Bakker 2005).

### ***Conclusion:***

In the 1980s and 1990s, privatization became an important public policy option for governments. The adoption and implementation of the policy led to the divestiture of state enterprises as well the opening of hitherto closed public service arenas to allow the penetration of private enterprise. The privatization process affected a number of government services/industries including airports, security services, electricity, water, highways, and a host of others (Boardman, Laurin, & Vining 2003; Conteh & Ohemeng 2009; Megginson 2001; Megginson & Netter 2003).

As already noted, privatization was premised on the fundamental philosophy that the private sector had shown tremendous leverage in service delivery compared to the public sector. Recently, however, the value of privatization in meeting the needs of the public sector has come under considerable attack. In short, questions are being asked about the essence of the policy, as it continues to exhibit some weaknesses in terms of the areas where it had ostensibly promised to be superior to the public sector: These areas, which we examined in the paper, include efficiency, effectiveness, and cost-savings.

Such questions have led to the reversal of the policy in a number of areas in both developed and developing countries and at all levels of government (Hefetz & Warner 2004; Warner 2008). In a nutshell, one could argue that privatization has failed to

accomplish what its proponents claimed it would do. To confirm or reject this argument, we set out to examine the privatization of water and wastewater services delivery in the cities of Atlanta and Hamilton, in the United States and Canada respectively. The cases, as explained, were selected on the basis that they represented the largest water and wastewater privatization deals in both countries. At the same time, they were to serve as models that other cities were expected to emulate. The two privatization deals, however, ended in fiasco for a number of reasons, which were outlined and discussed throughout the paper. Essentially, the deals failed since the so-called benefits that policy proponents advocated could not be realized.

The old adage that “not all that glitters is gold” rings true. Privatization promised to deliver the public sector from its perceived Achilles’ heel of shortcomings related to efficiency, effectiveness, and cost-savings; however, what happened in Atlanta and Hamilton was an expensive lesson concerning service delivery – learned the hard way. It is also a lesson that other cities contemplating privatization of certain services should consider.

What has been the performance of the two cities with respect to water and wastewater service delivery since they took back delivery from the private sector? What public sector models have they developed, or are they contemplating to develop, in order to achieve greater efficiency, effectiveness, and cost-savings in service delivery? These are questions that we intend to explore in the future.

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