



## PRIVATIZATION OF WATER AND WASTEWATER SERVICES

Issue Paper

# 6

Traditionally, provision of municipal water and wastewater services has been a duty of



public entities. However, private-sector participation in the provision of these services has increased both nationally and in Texas over the last decade. Recent changes in Texas law have helped facilitate this trend, though some argue more statutory changes are necessary. At the same time, there has been a large-scale consolidation among private sector water and wastewater utility providers, and many providers are now

subsidiaries of large, foreign-owned, diversified multinational corporations.

Major types of privatization arrangements include:

- outsourcing specific operational tasks, such as contracting with a private entity to operate and maintain some or all of a city's water or wastewater facilities;
- design-build-and-operate long-term lease arrangements with a private entity;
- a long-term concession in the form of a build-operate-transfer agreement; and
- the sale of a community or municipal water-wastewater system to a private entity.

**Before undertaking any effort to increase privatization of municipal water and wastewater services, the state should more thoroughly explore both the benefits *and* risks of privatization and make this information more widely available to communities, legislators and the public.**

Certain types of private-sector participation in various aspects of municipal water and wastewater services may offer benefits, especially in situations where a community or city is facing large investment costs to bring its infrastructure up to standard.

Nevertheless, privatization can also carry risks, including: decreased accountability and transparency in system operations, potential "rate shock", customer service problems and controversy over municipal employee layoffs. In addition, some private sector



companies are promoting “take-or-pay” contracts for privatized water supply projects. This approach, which requires payment for the water whether it is used or not, could diminish incentives for communities to encourage conservation practices.

**RECOMMENDATIONS:** Before taking action to further promote privatization of municipal water and wastewater services, the Legislature should ensure that the state will:

1. Undertake an objective, comprehensive and well-documented analysis of how water/wastewater privatization has fared in Texas and other parts of the U.S. and make those results widely available to the legislature, local governments, and the public.
2. Carefully evaluate the potential detrimental effects of “take-or-pay” contracts for raw water or water services on incentives for continuing improvements in municipal and commercial water conservation;
3. Determine what measures are necessary to ensure that ratepayers, particularly low-income ratepayers, are protected from “rate-shock” associated with privatization of water/wastewater systems or acquisition of older private systems by large private operators; and
4. Avoid facilitating large-scale private water supply projects or transfers until there is a thorough public debate on the risks and benefits of such projects including, particularly, the potential for adverse effects of such transfers on rural areas and the environment.

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