BY JULIUS CIACCIA, JR.

Consolidation & Privatization Would Help Communities Finally Resolve Urgent Infrastructure Issues

OVER THE LAST 40 YEARS serving in top-level management for water/wastewater public utilities, I've been witness to a steady conversation about the broadening infrastructure investment gap in the drinking water and sewer industry. We continue to strike the mallet to bring attention to the need for more funding, but parties in both the public and private sectors aren't making any real progress. It's critical that we seriously rethink viable solutions that will work in today's economic climate. And we need to collectively move toward constructive answers in the new year.

In Northeast Ohio, we've invested more than $3 billion in infrastructure improvements over the last 30 years — and much more remains to be done. One can easily imagine the magnitude of needs across the country.

In Cleveland alone, it has been increasingly challenging, however necessary, to raise rates nearly every year since 1990. But we have been fortunate to have elected officials who, because of various unfortunate infrastructure breakdowns, have clearly understood the urgency of this need. As a result, they have garnered the political will to raise revenues through increased rates.

But this organized effort has so far proven difficult to replicate elsewhere.

Identifying the roadblock to a solution is the easy part: the water industry is fractured into thousands of publicly-owned government utilities, making it cumbersome to coordinate a constructive effort to raise rates to support infrastructure in any uniform way.

The challenge is getting the regular populace to care about, much less pay for, an issue they cannot see and largely considered to be a sacred right. For this very reason, critical repairs are too often delayed because of the political pressure against raising rates. It's a tough sell for elected officials, dependent on ratepayers to continue to serve in elected office, to do the one thing they are asked to resist: request a deeper dig into their citizens' pocketbooks.

The ultimate result of elected officials avoiding these tough conversations means this problem could continue indefinitely, with municipalities patching holes and water breaks on an emergency basis but not addressing the broader concerns.

While solutions have been batted about over the last 20 years, I write this article to report what you already know: there has been no real progress.

One solution that has been proposed for years and years is a return to a federal grant program. But government-funded programs bring with them inherent inefficiencies due to the legislative and administrative strings that are attached. I believe this would just prolong the problem.

Another possible solution is entering into public-private partnerships (P3s). However, while P3s bring some operational efficiencies, they leave the rate setting back in the hands of reluctant elected officials. Given the capital intensity of our industry, the typical P3 structure does not end up addressing the capital needs in a material way.

What am I proposing?

I think it's time our industry leaders and elected officials be more open to accepting privatization — or, at the very least, consolidation — of some of these small utilities. Without a doubt, larger public entities will be more equipped to deal with the acute realities of capital needs and rate setting.

One option I believe we will see more of is private/regulated non-municipal utility companies leasing or buying public water or sewer systems to infuse these cash-strapped systems with much-needed capital to repair the lines and upgrade distribution channels.

I now work with some of these utility companies and have been encouraged by their approach. They help communities by paying a lump sum of cash to purchase their utilities, make the necessary investments, and take politics out of the equation. All of this happens under the oversight of a state-run public utilities commission.

There needs to be more of that, but working in utilities for some 40 years, I know that for many people in the industry, this is heresy.

And yet, privatization of water utilities is becoming the norm in much of the world, leading to improvements in the efficiency and service quality of utilities. France, Britain, Manila, Ecuador, Bucharest, several cities in Colombia and Morocco, as well as Côte d'Ivoire and Senegal are often cited as success stories.

The benefit of creating larger systems has been the ability to add some diversity to the marketplace. Most larger water corporations have refined their practices into efficient models of capital programs that consistently move the needle forward.

The water industry faces enormous capital investment requirements that ultimately mean customers have to pay more. But while privatization is admittedly a tough sell for the reasons outlined above, private/regulated non-municipal utilities can only charge rates with the approval of the state's public utilities authority — rates that reflect the level of investment while building in efficiencies that protect communities in the long run. In fact, investor-owned water utilities are roughly a third more efficient than their public counterparts.

My hope is that 2018 will be the year both public and private entities can come together to create a mind shift from water as a human right to recognizing water not as a commodity, but a service. The debates we have held over the last 40 years, while healthy, have been dishearteningly unproductive. It's time to get more serious about coming to a solution that best serves the future of our nation — and to have all options on the table.

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