Water Watch
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Water and Sewer Public-Private Partnerships (P3s)

With aging water and sewer infrastructure, municipalities are seeking new ways to finance and manage system upgrades. While most Canadian municipalities continue to have high quality, publicly financed and operated water and sewer facilities and services, private corporations are stepping up their marketing of public-private partnerships or P3s.

What is a water or sewer P3?

P3s are usually long-term (multi-decade) contracts to privately operate a facility or service that used to be in the public sector.

P3s are a form of privatization in which a private company (or group of companies) takes over the design, building, operation (DBO), and in many cases the financing (DBFO) of public infrastructure projects such as water or sewage treatment plants.

DBO and DBFO arrangements bundle all or most of the infrastructure development and operation into a single contract with one company or consortium (group of companies) formed to bid on the P3 project.

More typical procurement is where only the design and construction elements of the water or sewer system are tendered, and the municipality operates the facility directly.

Local municipalities directly operate the vast majority of Canadian water and sewage treatment facilities. Only a very small number of communities in Canada have experimented with P3s for water or sewer services.

In the recent case of Whistler, residents voted down a proposal by the Municipality to bring in private operation as part of a sewage plant upgrade project.

What are the problems with P3s?

Private companies become partners in P3 projects to make money. Investment advisors estimate the profit margin for corporations is anywhere from 10 to 15 per cent on P3 contracts. This profit margin adds to the cost of projects.

In most projects done with public procurement, government finances infrastructure projects with existing tax dollars or by borrowing money at a very low interest rate. In B.C., the Municipal Finance Authority provides capital for local governments at a very affordable rate.

But in P3s where a private company finances the project, funds are often borrowed at the much higher private sector borrowing rate. The government then pays the company monthly fees for its service over the lifetime of the contract, which is often multi-decade, costing citizens much more overall.

P3s almost always involve complex agreements, lengthy negotiations, secretive processes and a lack of public accountability. P3 proponents promote the idea that transfer of “risk” to the private sector justifies the higher cost of P3 contracts compared to public operations. But if something goes wrong – as in the case of Hamilton below – local government and taxpayers still end up on the hook.

Water P3 in Hamilton: Tried and Trashed

The citizens of Hamilton, Ontario, suffered through one of Canada’s most infamous examples of the disastrous consequences of privatized water and sewer treatment. In 1994, the city awarded an untendered contract for its water and sewage treatment plants to Philips Utilities Management Corporation in return for promises of local economic development, new jobs and cost savings. What the community got instead was a workforce slashed in half within eighteen months, a spill of 180 million litres of raw sewage into the harbour, the flooding of 200 homes and businesses, and major additional costs. In the ten years that followed, the contract shifted four times -- with two of the contractors now bankrupt and one of them a subsidiary of Enron! The P3 contract came up for renewal in 2004, with the city eventually opting to bring water and sewage treatment back into the public sector.

Hamilton’s decision is instructive. The council initially chose to try the private option again and instructed managers to issue an RFP. The proposed new contract addressed some of the problems of the previous agreement, including public liability in the case of another spill, liability insurance carried by the operator, and the private operator’s requirement to pay for system maintenance and upkeep. American Water, the only proponent to submit a final bid, presented a price of $39 million -- three times the cost of providing the service publicly. The price essentially included a 200 per cent “risk premium.” As with many P3s, the public was unable to assess the validity of the American Water proposal in the areas of liability and risk, since all such information is deemed “commercially confidential.”

The Hamilton experience belies the myth of risk transfer and highlights the lack of accountability that is a feature of almost all P3s. And, with the analysis just in on the first year of public operation, the *Hamilton Spectator* reported on April 24, 2006 that the in-house operation saved the city at least $1.2 million in its first contract year, compared to private operation.