

# The Facts about Wastewater, Stormwater, and Water Contract Management in the City of Stockton

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Myths	Facts
<b>Myth #1: Rate increases</b>	
<ul style="list-style-type: none"> <li>▪ When water is privatized, rate increases invariably follow.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A public-private partnership will result in financial benefits to the ratepayer and water quality guarantees</li> <li>▪ The city of Stockton will retain control over and will be responsible for setting water rates. OMI-Thames Water will have no say about water rates.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Corporations use rate hikes to maximize profits—their bottom line. This often comes at the expense of water quality and customer service (but not executive salaries).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Traditionally, in fully privatized systems, the systems were out of environmental compliance before privatization. In fact, the systems that were privatized were privatized because of environmental failures.</li> <li>▪ OMI-Thames Water will not have the authority to raise rates. Only the city can raise rates.</li> <li>▪ Without outsourcing, the city will have to raise rates by 35 percent to pay for capital improvements to meet the new environmental regulations. That's why the city is considering a public-private partnership: to keep rates low and to improve the quality of water and to improve customer service.</li> <li>▪ OMI-Thames Water's cost and performance are guaranteed and will result in only a 7 percent increase in rates and no more.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Water is a basic human need and shouldn't be treated as a marketable commodity.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Water is a basic need as are food, clothing and shelter, all marketable commodities. We don't ask the government to provide these.</li> <li>▪ OMI-Thames Water has no influence or control over rates or water availability.</li> </ul>

Myths	Facts
<b>Myth #2: Water quality decreases</b>	
<ul style="list-style-type: none"> <li>▪ Because corporations care about profits rather than the public good, privatization usually results in decreased environmental standards.</li> <li>▪ The National Association of Water Companies (NAWC), which represents the U.S. private water industry, intensively lobbies Congress and the Environmental Protection Agency to lower water quality standards.</li> </ul>	<ul style="list-style-type: none"> <li>▪ U.S. EPA has identified privatization and outsourcing as tools to improve environmental standards.<sup>1</sup></li> <li>▪ Municipal agencies are not without problems. In 2002, nearly 30 California communities—all municipally operated—faced enforcement action (fines) from the State Water Resources Control Board.</li> <li>▪ U.S. EPA, the state of California and the County set environmental standards. OMI-Thames Water must comply with these standards.</li> <li>▪ In fact, NAWC is fighting for performance-based regulations that have a direct impact on water quality.</li> </ul>
<b>Myth #3: Corruption</b>	
<ul style="list-style-type: none"> <li>▪ As we saw in the “energy crisis” last year, privatization encourages corruption.</li> <li>▪ Checks and balances are missing at every step of the process, from bidding on the contract to delivering water.</li> <li>▪ Contracts are usually worked out behind closed doors with the details often kept secret from the public even after the contract is signed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Many public utilities, including Los Angeles Dept. of Water and Power, charged the highest rates to consumers in California.</li> <li>▪ The city of Stockton was fair and open throughout this process. The consultants, City Council and Municipal Utility District staff have been involved in every step. The team of citizens reviewed the Request for Proposals. Public comment was welcome and heard at all council meetings and at seven public forums. The OMI-Thames Water proposal is available to the public on its Web site.</li> </ul>
<b>Myth #4: Job losses</b>	
<ul style="list-style-type: none"> <li>▪ Massive layoffs often follow in the wake of privatization, as companies try to minimize costs and increase profits.</li> </ul>	<ul style="list-style-type: none"> <li>▪ There will be no layoffs. OMI-Thames Water will hire all employees designated by the city.</li> <li>▪ U.S. Department of Labor and General Accounting Office (GAO) studies show job loss averaging less than 7 percent after privatization.</li> </ul>
<ul style="list-style-type: none"> <li>▪ At times, service and water quality are put at risk due to understaffing.</li> </ul>	<p>The contract outlines performance requirements and staffing levels. OMI-Thames Water is fully committed and required to meet or exceed levels of service and quality of water and wastewater.</p>

<sup>1</sup> U.S. Environmental Protection Agency, Environmental Finance Program, A Guidebook of Financial Tools Section 4B. Public-Private Partnerships and Optimization Case Studies, 1999, [www.epa.gov/efinpage/guidbk98/gbk4b.htm](http://www.epa.gov/efinpage/guidbk98/gbk4b.htm).

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<b>Myth #5: Stuck for 20 years</b>	
<ul style="list-style-type: none"> <li>The deal that the Stockton City Council wants to make with a private water company includes exclusive distribution rights for 20 years, locking us into a contract for two decades.</li> </ul>	<ul style="list-style-type: none"> <li>OMI-Thames Water has no rights to the water or its distribution. It is under the obligation of the city to treat, manage and account for the city's water. The Service Agreement developed by the city provides the city with numerous options to terminate OMI-Thames Water's services with or without cause. The city is fully protected in this regard.</li> </ul>
<b>Myth #6: Difficult to reverse</b>	
<ul style="list-style-type: none"> <li>Once a water system is handed over to a private company, withdrawing from the agreement borders on impossible.</li> <li>Even if the contractor doesn't fulfill his part of the contract, proving breach of contract is a difficult and costly ordeal.</li> <li>These corporations have infinitely deep pockets and multinational trade agreements, such as NAFTA, provide them with powerful legal recourse.</li> </ul>	<ul style="list-style-type: none"> <li>The city is maintaining the full right and capability to resume responsibilities at any time. The mechanisms are both legal and practical.</li> <li>While breach of contract is one vehicle for termination, it is not the only remedy for the city. The city can terminate for convenience at any time with 30 days notice without any stated cause.</li> <li>OMI-Thames Water has formed a U.S. corporation and does not have any international leverage. The city will hold a \$10 million Letter of Credit to use freely against OMI-Thames Water or to resolve disputes. Further, the company is providing a \$100 million performance bond that is fully accessible by the city.</li> </ul>
<b>Myth #7: Local control suffers</b>	
<ul style="list-style-type: none"> <li>When water services are privatized, very little can be done to ensure that the company will work in the best interests of the community.</li> </ul>	<ul style="list-style-type: none"> <li>The contract, performance measures and responsibilities actually provide more local control. The city holds absolute control over OMI-Thames Water to provide a high-level of service.</li> </ul>
<ul style="list-style-type: none"> <li>Furthermore, if a community is dissatisfied with the performance of the company, buying back the water rights is very difficult and costly, as many unfortunate communities have learned.</li> </ul>	<ul style="list-style-type: none"> <li>The water rights of the community remain with the city. OMI-Thames Water will not have rights to the city's water.</li> </ul>
<b>Myth #8: The poor lose out</b>	
<ul style="list-style-type: none"> <li>When water rates go up, people with little money may have to choose between water and food, medicines, and other needs.</li> </ul>	<ul style="list-style-type: none"> <li>Without outsourcing, the city will have to raise rates by 35 percent to meet the new environmental regulations. OMI-Thames Water's cost and performance are guaranteed and will result in only a 7 percent increase in rates and no more.</li> </ul>

Myths	Facts
<ul style="list-style-type: none"> <li>Since water is a necessity for life, people may die if they can't afford water.</li> </ul>	<ul style="list-style-type: none"> <li>The city controls water and wastewater rates and has all rate-setting responsibility. OMI-Thames Water has no control over rates.</li> <li>The contract actually keeps rates down, making water more affordable.</li> </ul>
<p><b>Myth #9: Private financing costly</b></p>	
<ul style="list-style-type: none"> <li>The City Council is selling the idea of privatization by implying that the private water corporation will assume the costs of repairing, upgrading, and maintaining our water infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>OMI-Thames Water will assume all costs for repairing, upgrading and maintaining the water infrastructure.</li> </ul>
<ul style="list-style-type: none"> <li>This is a false economy. In reality, all costs will simply be passed on to us. The ratepayers, through our monthly water bills.</li> </ul>	<ul style="list-style-type: none"> <li>Public provision of services is not free. You already pay for it through your taxes and monthly water bills.</li> </ul>
<ul style="list-style-type: none"> <li>In fact, since the city can get tax-free public financing to do this work, it is in our best interests to do it ourselves and save the extra money the private corporations will have to charge due to their higher interest rates.</li> </ul>	<ul style="list-style-type: none"> <li>The city can ask OMI-Thames Water to propose on other improvements in the future, if needed, but has no obligation to assign the work to the company. It has the full freedom to pursue and select other companies to perform any improvements.</li> <li>As owner of the assets, the city still has access to tax-free and low-interest financing. Thus the city gets dual benefits of low-cost financing and low-overhead services for improvements in the utility infrastructure.</li> </ul>
<p><b>Myth #10: Water exports more likely</b></p>	
<ul style="list-style-type: none"> <li>When those who control our water care only about making money, they may decide to export our water to areas willing to pay more.</li> </ul>	<ul style="list-style-type: none"> <li>The city owns and controls the water in Stockton. OMI-Thames Water is only a service provider to operate and maintain the facilities, equipment and staff of the utility.</li> </ul>
<ul style="list-style-type: none"> <li>In addition, they may take too much water.— Over-extraction of water can result in ecological imbalance and destruction.</li> <li>Would a foreign corporation care about the effects on our environment?</li> </ul>	<ul style="list-style-type: none"> <li>OMI-Thames Water is responsible for distributing the water provided by the city. Water extraction is monitored and regulated by the city.</li> <li>OMI-Thames Water is a U.S. corporation. U.S. EPA maintains regulating authority. The same rules and regulations will apply to OMI-Thames Water. In fact, OMI-Thames Water is more likely to follow environmental regulations due to contract requirements and performance measures.</li> </ul>