

# **Bond Case Briefs**

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## **Policy and Politics Program Director Talks Effectiveness of Public-Private Water Systems.**

On Monday, the Ford School of Public Policy [hosted an event](#) featuring Manny Teodoro, director of the Policy and Politics Program and associate professor at Texas A&M University, who has conducted significant research on the nation's water systems. The event, titled "Water System Finance: the Political Pitfalls of Public-Private Partnerships," covered the effects of public-private partnerships on water systems.

Teodoro started his talk by introducing a unique caveat in the water market — the disparity in the visibility of the price of water and its quality in the market.

"With water, the cost is much more visible than quality," Teodoro said. "Most of the contaminants in water are invisible to us. However, the price of water is very easily and readily observable."

As such, Teodoro argued if a water system is run by the local government, then it will naturally focus on reducing the price of water to appease residents — a stance that will also inadvertently lead to lower water quality.

"The goal of every politician who wants to get re-elected wants to minimize price and maximize quality," Teodoro said. "However, because of how much more visible prices are than quality for water, the long-run outcome is low prices and low quality."

Alternatively, in private-run water systems, the price companies are allowed to charge for water is limited by how much they invest in their water infrastructure, which is a limit enforced by the public utilities commission. Because of this, they are incentivized to over-invest in their water infrastructure, which will lead to high quality water but also high prices.

"The goal of every company is to make profit," Teodoro said. "As such, they are incentivized to maximize investment so that the public utilities commission will allow them to raise prices in conjunction with their higher investments. As such, private water tends to be high price and high quality."

However, Teodoro also argued public-private partnerships are not the solution to this dilemma.

"In public-private partnerships, the local government sets the price for the water and the private company has to figure out how to maximize its profits within that," Teodoro said. "As such, the incentive for these private companies is to reduce operating costs. This results in low-priced water but also low-quality water."

Furthermore, Teodoro disputed the perception that public-private partnerships are a solution for financially constrained water markets, emphasizing how they are a mechanism, not a self-sufficient source of revenue.

"Privatization of public partnerships are not sources of capital. In the end, the money's coming from

the same people,” Teodoro said. “The rate increases are still going to be needed to upgrade infrastructure, or else they will continue to fail.”

After the talk, Shen Puspita, a Public Policy graduate student, reflected on her views of the water systems and her main takeaways from the talk.

She discussed how more successful systems tend to be small, privately-owned water plants, but improvements are needed in larger, public water systems.

“The private-owned model only works with small-scale water plants, but we need to improve number of larger-scale water plants,” Puspita said.

Puspita also acknowledged private water plants do tend to produce higher quality water and operate more efficiently.

“I believe that private water plants will enhance the quality of water and efficiency of water plants,” she said.

Puspita spoke of her concern of how politicians would use public-private partnerships to shield themselves away from their responsibility for their constituencies’ water systems.

Marc Jaruzel, a Public Policy graduate student, echoed some of the skepticism for public-private water system partnerships.

“Public-private partnerships aren’t necessarily the fix-all,” Jaruzel said. “There is some evidence that it may be beneficial, but we just can’t say definitively whether P3s will be beneficial or not.”

Jaruzel commented on how having competing public water systems would not be a feasible solution either.

“I think public competition would be really challenging because you would have to have different pipes laying in the ground from different companies,” Jaruzel said. “I think it would take a really creative solution to get utilities to compete in a similar way as other businesses.”

THE MICHIGAN DAILY

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Monday, January 28, 2019 - 8:38pm