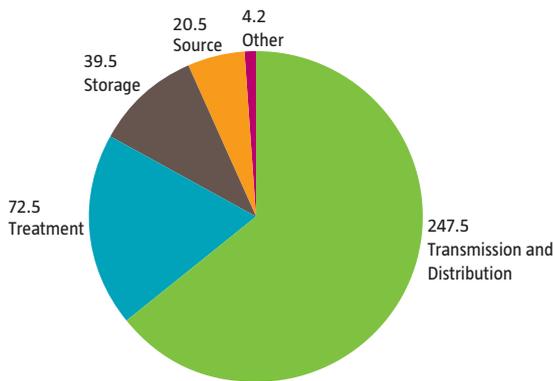


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# Water and me: US water challenges in Flint and beyond

## US water infrastructure investments required (in USD billions)

Source: 2013 EPA Needs Survey



The town of Flint, Michigan first entered the spotlight when Michael Moore's documentary "Roger and Me" outlined the impact of auto-factory layoffs on his working class hometown. Almost 30 years later, Flint is in the spotlight once again, but for an entirely different reason. Flint's water crisis began when the city decided to switch its water source to the local river as a cost cutting measure. However, it failed to invest in the anti-corrosive chemicals that such a change required.

As a result, the different chemical composition of the new water caused old lead pipes to corrode, leaching lead into the water supply and contaminating the population. To add insult to injury, this ignorance of safety rules did not translate into lower prices for customers, as the average annual water bill in Flint was USD 864, or about the double the US average.<sup>1</sup> Also, the municipality now has to replace all pipes, for which it has requested USD 55 million from Congress.<sup>2</sup>

But the water crisis goes beyond Flint. Although the case reflects the local government's inadequate response to the crisis, it also puts the spotlight on the entire country's dilapidated water infrastructure, which has been rated at D- by the American Society of Civil Engineers. Fixing the country's infrastructure would cost and estimated USD 1.7

trillion through 2050. Compounding the issue and at the heart of the Flint crisis, is the US's fragmented water system: 84% of the water systems and 98% of the wastewater systems are owned by municipalities, which when faced with budget constraints, cut costs. Moreover, the staff operating water systems in the smaller municipalities is often poorly trained and equipped to oversee water safety.

Private companies have slowly been consolidating the industry, starting in a few states where regulations were favorable to this evolution. This trend is now gathering pace. Because private water utilities already operate a large asset base, the investments required following an acquisition can be more easily spread and the impact on the customers much lower. In addition, these companies are able to make efficiency improvements to their operations, allowing them to reduce water rates. More importantly, private companies are subject to more stringent EPA<sup>3</sup> control than municipality-owned systems.

Regulators increasingly view privatization as a way to improve the safety and quality of the service delivered to the customers. And while most municipalities will still find it difficult to part with the management of their water systems, wastewater systems should see a strong privatization wave in the midterm. The biggest listed companies like American Water Works and Aqua America will most likely be the main beneficiaries of this trend, which will allow them to post high single digits to low teens growth, way ahead of their peers in the utilities sector.

"The Flint water crisis is prompting cities throughout the US to finally improve their water services. With their larger scale and technical expertise, large listed utilities will play a vital role in upgrading the country's outdated water infrastructure."



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<sup>1</sup> <http://www.theguardian.com/us-news/2016/feb/17/flint-water-crisis-michigan-contaminated-water-bills-food-water-watch-study>

<sup>2</sup> <http://www.wsj.com/articles/flint-set-to-begin-replacing-lead-pipes-1457121838?mod=mktw>

<sup>3</sup> Environmental Protection Agency