



# TESTIMONY

June 26, 2023

## SEEKING MULTIPLE BIDS FOR THE SEWER SYSTEM WOULD BENEFIT FESTUS

*By David Stokes*

Testimony Before the Festus City Council

### **TO THE HONORABLE MEMBERS OF THIS COUNCIL**

My name is David Stokes, and I am the director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has conducted and reviewed concerning Missouri utilities, privatization, and local government service sharing. This testimony should not be viewed as specific support for, or opposition to, any particular sewer plan that Festus is considering beyond general support for the idea of seeking multiple bids for multiple agencies—public and private—as Festus tries to determine the future of the shared municipal sewer system.

The problems with the municipal water and sewer system are multiple and obvious. On a larger level, more stringent water and sewer quality requirements from state and federal regulators have made it more difficult for small, municipal utilities to operate. Often, they simply do not have the resources to meet the higher water-quality and sewage-control standards. Many large cities, such as St. Louis, have had trouble dealing with revised EPA sewage guidelines, and those cities have far more resources to deal with water or sewage regulations than smaller cities like Festus and Crystal City.

The Jefferson County Public Sewer District (JCPSD) has offered to purchase the shared municipal sewer system of Festus and Crystal City for \$5 million. Service sharing at the local government level has many benefits, including access to greater expertise and significant economies of scale. This proposal from JCPSD is excellent, but in order to get the

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best value for residents, taxpayers, and sewer customers (most people are all three, of course), Festus and Crystal City should actively seek sewer provision proposals from as many entities as possible. If Festus has already begun this process, then I commend the city for it.

Another alternative to sharing services with other local governments is privatization. Many municipalities across Missouri have realized that the best thing for their residents is to “privatize” their water and sewer systems by offering them for sale to the highest bidder capable of effectively operating them. Within the past several years, voters in the Jefferson County cities and villages of Arnold, Eureka, and Olympian Village (along with several other communities across Missouri) have approved privatization of their municipal water and sewer systems.<sup>1</sup> These companies have paid municipalities amounts ranging from \$200,000 to \$28 million for their system. Privatizing them was a way for each municipality to get paid for valuable public assets and guarantee the proper operation of its water and sewer services by a regulated, privately operated utility. The municipalities can use the money from the sale to pay down debts, invest in other municipal needs, or anything else the municipality wants to prioritize.

In 2015, Arnold sold its sewer system to Missouri-American Water for \$13.2 million. That deal would seem to be the most appropriate comparison for Festus and Crystal City. There is simply no reason to limit the bids and proposals to just the one submitted by JCPSD. Proposals from other qualified entities could come in at a higher price, with new creative ideas for sewer system operations, or both.

One common concern about privatization is the fear of large increases in people’s utility bills. Some increase is often necessary, because government-owned systems often underprice their utilities for political reasons—they buy votes with cheap water. Underpricing utilities leads to less investment in the system, and that is part of the problem. However, residents of Festus and Crystal City should not worry that privatizing their water and sewer systems will lead to an unsupervised free-for-all on rates. Private utilities in Missouri are heavily regulated by the state Public Service Commission, and a private company would not be able to take over in these communities and simply raise rates with no justification.

Operating a municipal sewer or water system under current rules and regulations is beyond the capacity of most smaller communities. However, it is well within the capacity of larger public agencies like JCPSD and larger, private utilities like Missouri-American Water, Veolia, and Liberty Utilities. Festus and Crystal City should take advantage of that and seek bids (or continue to seek bids if they have already done so) from additional private utilities to run their shared sewer system. Furthermore, the entire process should be conducted in an open and transparent process. That is the best way for city officials to serve the residents of both communities.

## ENDNOTES

1. The author is aware that most of Eureka is in St. Louis County, and that all of the water and sewer systems that were sold to Missouri-American are located in St. Louis County. Also, while voters approved the sale of the Olympian Village sewer system to Liberty Utilities, research has not revealed whether that approval has been acted upon yet by the village and the utility.



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