

Is your water system – or its management – up for sale?

Not all that many years ago, everyone knew who was responsible for picking up their garbage. Waste collection was a municipal function, so if you had a problem with your service, you called City Hall.

Today, we all know (if we think about it at all) that our municipality has contracted for that service with a private vendor. The people who pick up the stuff I leave at the curb each Wednesday work, not for City Hall, but for a professional waste hauling company.

Here in the Midwest, water and wastewater services are still thought of as something that's

That trend has now begun growing here in Kansas. Is that a good thing?

Atchison, Junction City

Based on the experience of a couple of Kansas municipalities, yes. Like many trends, outsourced management of water and wastewater systems started on the nation's edges, in the East and West, and even Texas and other parts of the South, and then trickled into the Heartland. Both Atchison and Junction City were ahead of the curve, though, moving toward contracting several years ago – and both have stuck with it.

"We're pleased with it," said

In both towns, the issue that drove them to look at contracting was compliance with ever-stricter water regulations.

In Junction City, the switch came in 1989, and the contractor who won the bid was the large firm now known as U.S. Filter Operating Services. (The firm, part of the French-based conglomerate Vivendi, has changed its name a couple of times since '89.)

"Back in 1989, the plant had a lot of issues with compliance, and with keeping people hired and going through the regulations and getting certified," Barnes said. "That was really what drove it then.

"It wasn't so much the dollar savings, just that we couldn't seem to get the expertise to run the plants ourselves. We were under an administrative order at that time."

Dennis Taggart, operations manager for U.S. Filter in Junction City since '89, says, "We've been here long enough we've been able to get them out of a few jams and help them out when they needed us to.

"From talking with the successive city managers – we're on our third city manager since we've been here – a lot of it had to do with being able to have a management style that either they couldn't get or they didn't want to try to internally. A lot of the water and wastewater regulations were starting to snow them under.

"We have plenty of experience with those types of

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properly handled by a public body, whether it's a municipality or a rural water district. But elsewhere, that assumption has changed too. In hundreds of communities all across the U.S., water and wastewater service is being delivered by somebody else.

In some cases, the system has been sold, lock, stock and barrel of chlorine, to a private company. In even more instances, the muni or RWD still owns the hardware, but management has been turned over to an outside firm.

Joe Turner, city manager in Atchison.

"Right now the city commission is looking at dollars, and they're looking at alternatives, but city staff still feels that OMI [Operations Management International, the contracting firm in Atchison, as well as in Dodge City] has been a solution for our problem."

Rod Barnes, city manager in Junction City, echoes the theme: "It's worked really well for us. Through the years, it's been a great relationship."

things, plus [we provide] much more stable management of the resources, of the finances."

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Taggert says that's an outmoded idea in general. And it certainly wasn't true in this case.

"Here in Junction City, everyone who was working for the city at the time became our employee" with the exception of a few who retired or left for other reasons. "We didn't pick and choose to see who we liked."

The same sort of scenario played out in Atchison.

"It seems like all the employees who went over to OMI were extremely happy," said city manager Turner.

"And they're still happy. At first some employees didn't like the idea, but now I don't think they'd come back. If we terminated the contract, I think they'd go with OMI."

Contracts

One of the things that many people misunderstand about outsourcing is how much control they have over things. Some people we've talked with feel that they end up with more control than they had before. They no longer have to worry about how this or that change will go over – they just tell the contract manager what they want and let him worry about doing it.

The main vehicle for control is the contract. Worried about how city employees will be treated by the new management? Insist on protections up-front, when you write the contract.

Atchison went one step further. When it opened up bidding on its water-sewer

management, it had in-house people bid for the same five-year contract, just to get a valid, apples-to-apples comparison.

"We wanted to get a cost analysis over a five-year period," said city manager Turner. "OMI beat our own proposal by \$300,000. And then we just renewed last year [with] a 10-year contract."

U.S. Filter's Taggert says most water systems are concerned about their employees, how well they're going to be taken care of, and that their wages and benefits remain about the same. It's become routine, he said, to include protections of that sort in the contract.

In some ways, employees often get a better deal with a contractor, if only because the career path now includes the potential of transferring to another community.

"You don't have to work 30 years waiting for the superintendent to keel over at his

desk to move up a notch," Taggert said. "If you've got the skills and the knowledge and the certification, we have 600 projects across the country."

"One individual who worked here at the water plant for quite a few years got married, and she was from the East Coast. After a while she was able to get a promotion and go out to the East Coast with one of our projects."

"We had another individual who worked for the city for a number of years, came to work for us, went through the ranks at the wastewater treatment plant and was very interested in the safety aspects of it. He's now a regional safety manager over four states for the company."

"And a number of people have gone and come back."

Turner says that even though OMI is a smaller company, it too has provided new career paths for some local employees.

Suspensions about how well employees will be treated linger for a while, but then – at least in



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Let's say there are three or four smaller RWDs in the same area that should logically consider a merger. No matter how much sense it might make, we all know that pride of place and institutional ego would likely make it unthinkable.

the case of these two Kansas towns – begin to fade. For instance, both communities at first retained meter reading for city employees, but as the years passed, they handed off additional duties (and additional employees) to the outside firm.

"At first we made it mandatory that they have a certain level of employment," said Turner in Atchison. "But after two or three years, we took that out of the contract. If they could be more efficient with fewer employees, that's better for us."

Snowballing

Indeed, if Junction City and Atchison are any indication, when it goes well thoughts begin to turn to other things that can be turned over to the management firm.

Both municipalities added small lines of business, such as meter reading or, in Atchison's case, a host of other services as well.

"It's hard to say if they've actually saved us money," Turner said, "because we've added several projects on their contract.

"We started a valve maintenance program and wanted them to handle that, and then we wanted a water meter replacement program, and also we wanted to start installing fire hydrants. It's just kind of snowballed into a larger contract.

"I can't give you an opinion on whether they're doing it cheaper or not, because it would be hard to do a comparison at this point," he added, "but I think they've done an outstanding job."

The snowball has grown still more in Junction City. There, U.S. Filter started out in 1989 operating one water plant and one sewer plant, then added a second sewer plant when the city built one for a new ConAgra plant. And now, as of just over a year ago, the firm also manages the city's public works operations.

On top of that, U.S. Filter handles a variety of capital projects, in effect financing the job and recovering its own debt service in the form of contract fees.

"We've always cut most of our capital every year, when we get in a budget crisis," said city manager Barnes. "Now they're able to spread those capital improvements over 15 years and just put it into our contract."

Though a direct cost comparison is often difficult, the finances do seem to be working

out. The municipalities contract is set up so that if U.S. Filter doesn't spend the money, Junction City gets it back.

"Over a 12-year period, we gave them back over \$500,000," Taggert said. On top of that, the firm's rates have gone up by less than the rate of inflation.

"We keep a close eye on power costs, chemical costs, we use our national buying power and those kinds of things," the project manager said.

City manager Barnes summed it up this way: "It's worked really well for us. It's not going to work as well for every city, but in our case, where we were constantly battling, trying to get capital improvements done and keeping in compliance and trying not to cut their budget, especially in Public Works, it's worked just terrific.

"Our east plant won wastewater treatment plant of the year last year, and we've had a number of safety awards during U.S. Filter's tenure. It's been a very positive relationship."

Atchison has a new water treatment plant. KRWA surface water tech Lonnie Boller snapped these photos on 2/7/04. Operator Neil DeJong was monitoring the Scada system.



Finessing the politics

Though a number of larger cities, such as Indianapolis, have hired outside management for their water systems, the trend seems to be represented by these two Kansas communities: mid-sized towns with modest but not severe problems.

How about even smaller systems, such as the RWDs that predominate in Kansas? Would it make economic sense for them? Indeed, would it even make sense for an OMI or U.S. Filter to bid on a 400-connection rural district?

Taggart is familiar with smaller systems and says his company might be interested. Well, maybe.

Here's a thought, though. Making any kind of change in the operation of a public body can be difficult (even in Atchison, where things have turned out so positive, initial approval was by a 3-2 vote). But perhaps the decision to hire an outside contractor can be a way to actually avoid political hassles.

Let's say there are three or four smaller RWDs in the same area that should logically consider a merger. No matter how much sense it might make, we all know that pride of place and institutional ego would likely make it unthinkable. But what if those neighboring systems got together and jointly hired an outside firm?

We're not merging, they could rightly claim to be seeking operational or managerial efficiency.

As a larger entity, the joint group would likely get more serious consideration from the contractors. And certainly the contract could be written to meet the competing needs of all the entities involved.

If there is indeed a trend toward outsourcing, this is certainly something more and

more managers and boards should be looking at. But, trend or not, not every problem has the same solution.

Take Manhattan. Another midsized town, another likely prospect for the contractors, and a municipality where, at the behest of one city commissioner, outsourcing is being looked at.

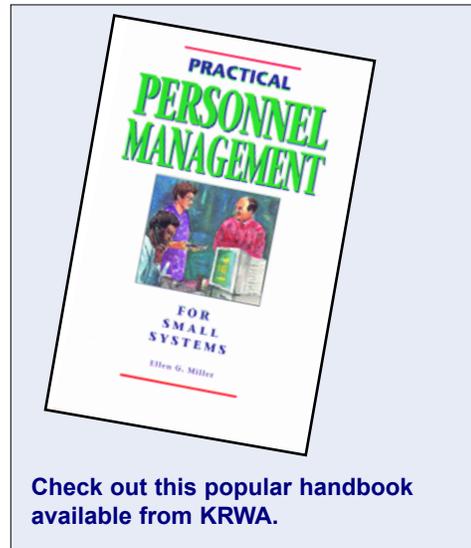
Bernie Hayen, Manhattan's chief financial officer, feels that while hiring outside managers can be a valid tool, his city is managing its resources well enough – the city's total payroll has been cut from 308 to about 290, for instance – that it's not a necessity.

"We're not opposed to looking at privatization," Hayen said. "But some cities – and to be quite honest, Junction City is one of those – do it by necessity. "I'm not opposed to converting, and I don't believe anybody on our staff is opposed to converting the whole management process on a utility or any other function," he added. "But we want to make sure it makes the most sense."

As a matter of fact, Manhattan has undertaken a major privatization study, and there's been some discussion of creating a combined fleet maintenance garage for the city, county, school district and even Kansas State University.

Hayen is a big advocate of keeping your options open, of exploring all the possibilities – and doing so with an open mind. "I get so weary of jurisdictions that just refuse to even consider it or talk about it," he said.

In the end, it's all about management. And with management, as with many another aspect of day-to-day living, you can either do it yourself or you can hire it done.



Check out this popular handbook available from KRWA.

At home, if the bathroom sink is leaking, the choice is to fix it yourself or call a plumber. In an auto plant, the choice is building the entire car vs. outsourcing, say, the wiring harness. In business school, they call it the make-or-buy decision.

Running things yourself often makes sense, as seems to be the case for Manhattan. For others, perhaps outsourcing is a better option.

Many Kansas water professionals have known that for some time. That's because they have a copy of *Practical Personnel Management* on their shelves. Chapter 10 of this short, readable book, part of KRWA's *Water Board Bible* series, is about "The Pros and Cons of Contracting." Pull it off the shelf and check it out.

Whether you end up going it alone, contracting for a limited array of services or outsourcing the whole hog, what's key is to take a sharp, objective look at what's working and what's not – and then to make the decision that's right for you. The only thing that's always wrong is not gathering the facts, looking at the alternatives and making a rational decision. That's called letting things slide, and that's not a valid form of management anywhere, anytime.