Reversing the Privatization Flow Direction

A Case Study In One Municipality’s Experience of Changing From Private to Public Utility Operation and the Realized Cost and Technical Benefits
Presenters

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Genoa-Oceola
Sewer & Water Authority
1. Provide History on Systems That Were Privately Operated for 22 Years (1988-2010) and now Publicly Operated

2. Evaluate Advantages and Disadvantages of Different Contract Scenarios Over this Time
   - Private
   - Private with Municipal Administration
   - Municipal

3. Provide Data on Actual and Immeasurable Dollar Savings From Our Conversion from Private to Public Operations
   - Efficient Government Can Be Cheaper
   - Value of Records and Data

4. Discuss Some of the Lesson’s Learned from Our Conversion
Some Background About Us
- 18,000 Customers
- Budget $5.3 Million
- 3 WWTP
- 2 WTP
- 56 Pumping Stations
- 6 Water Towers
Why Are Traditional Municipal Services Privatized?

1) Privatization Saves Money
2) Private Companies Do a Better Job than the Public Sector
3) Privatization allows Government to Anticipate and Control Budget Costs
4) Requires Less Government Administration
5) Public Still Maintains Value of Privatized Asset
6) Easy to Fire Contractor if it Doesn’t Work Out
Our History with Private Operations

• 22 Years of Experience with Private Operations

• Three Distinct Contract Styles
  • **100 % Private Operation**
    • **Contract Style 1** – Primary Design Engineer Firm Also Provided Operator Services
    • **Contract Style 2** – Independent Operations Firm

• **Municipal Administration with Private Operations**
  • **Contract Style 3** - Independent Operations Firm with Direct Municipal Oversight, Municipal Engineering, and Administrative Support
Period 1 – 100% Private Operation 1988 - 2006

- **Contract A** was a Monthly Flat Rate with Payment for Out of Scope Service and Emergencies
- **Contract B** set a monthly flat rate, regardless of emergencies

- Same Contractor had Individual Contracts for Operation of Each System
  - 1988 – Oak Pointe and Lake Edgewood Systems
  - 1991 – Genoa-Oceola System
  - 1998 – MHOG System
Benefits

- Initial Small Size of Systems Benefited by Private Operation
  - Allowed the Township to Have Minimal Staff
  - Contractor had More Resources and Expertise than Township

- Rapid Growth Provided Money For Improvement and Correction of Problems
Experienced Drawbacks

- Data resided with Engineers and Operator and not with Municipality
  - Three Different Engineering Companies at One Time

- Poor Communication of Field Problems to Municipality and Governing Boards
  - Installation of Unnecessary Improvements
  - System was Built Piece Meal
    - No Transmission Main
Experienced Drawbacks (Cont’d)

- Poor Maintenance
  - Claims, Fines, Consent Orders Due to System Performance
  - Lack of Data Collection
  - Large Maintenance Expenditures
Reason for Change

• Costs from Private Firms Began to Rise
  • Out of Scope Expenses Exceeded Base Contract

• Regulatory Pressure
  • Genoa-Oceola Experience $54,000 Consent Order for Pollution Violations

• Cost of Repairs
  • Failed Preventative Maintenance Resulted in Large Emergency Expenditures

• Poor Customer Service

• Understaffed and Undertrained
Municipal Shortcomings During Private Operation

• Growth Management
  - Problems Corrected with Growth
  - Lowest Cost Option Installed – Pro Growth
  - No Redundancy or Emergency Backup (Generators)
  - Developers Installed What They Wanted – No Uniformity

• Data Management
  - As-Built Records Entrusted to Operator

• Financial Management
  - No Rate Increases for 10+ Years
  - No Reserve Funds Created
  - No Line Item Budgets

• Operators and Engineers Working Together
Example:

Financial Management Shortcomings
Period 2 - Public Administration with Private Operations

2006 – 2010

- Private Operations Firm Combined with Municipal Director, Engineer, and Billing Services
- Contract Was a Monthly Flat Rate Fee
- Municipal Employees Billed to Individual Systems
- Same Contractor had individual contracts with individual systems
- Best of the Private Scenarios Encountered
Benefits

- Maintenance
- Transitioned from Reactionary to Preventative
Benefits (Cont’d)

- **Financial Management**
  - Initiated and Maintain 5 different O&M and reserve funds
  - Contractor Could Focus on Maintenance, Repairs, and Reporting while Municipal Admin. Focused on Fiscal House in Order

- **Growth Management**
  - Economic Downturn 2008
  - Allowed Us To Study Problems In System and Make Corrections
Benefits (Cont’d)

Owner Oversight of Contract Operator Provided Goals, Programs, & Priorities
Benefits (cont.)

- Data Management
  - Capital Improvement Planning

- Using GIS for our system base maps
  - Creation of map books for field staff
  - Linking all As Built Records in GIS

- Using a Hydraulic Water Model linked to GIS

- Engineering Studies to Improve System Performance
  - Dry Weather Study of Collection System
  - Maximum Day Demand Day for Water Systems
Example of Hydraulic Model & GIS Improvements

- MHOG 2005 Capital Improvement Plan

Estimated Cost of Improvements
~ $11 M
Realized Benefit of In House Administration:

- Including Hydraulic Modeling, GIS, and In House Review
Reduced Total Cost of Improvements from $11M+ in 2005 to $5M improvements currently being installed.
MHOG 4.5 MGD Improvements
Through Jan 2013
Experienced Drawbacks

- Cost Increased
  - Municipal Administrative Staff Dictated Number of Operators Required
  - Systems Had to Pay for Municipal Administrative Staff As Well
- Occasional Difference In Priorities
- Proprietary Preventative Maintenance Programs did not result in Municipality Maintaining Data
- Concerns with Municipal Administration Directing Private Staff Activities
Why Did We Change?

Wanted to Demonstrate That:

1) Public Operation Can Save Money
2) Publicly Employed Staff Can a Better Job than the Private Sector
3) Public Administration Can Better Anticipate and Control Budget Costs
4) Public Operation, When Compared to Oversight of Private Operation Scenario, Requires Equivalent Levels of Government Administration
5) Improve Value and Life Cycle of Our Assets
6) Easy to Go Back to Private if it Doesn’t Work Out
Intergovernmental Working Relationship

MHOG Sewer and Water Authority Board

Genoa Township Utility Department

Genoa-Oceola Sewer and Water Authority Board

5 Independent Systems

1 Operational Contract

3 Governing Boards

- Oak Pointe Sewer & Water
- Lake Edgewood

Genoa Township Board
How Can Public Be Cheaper?

• Operate Like a Private Business
  • Public Equivalent of 401 K Retirement Program
  • Performance Based Salary Incentives
  • Promote from Within and Offer Long Term Career

-And Then-

• Take Advantage of Tax Free Purchases
  • Equipment, Fuel, Supplies
• Use State Pool Vehicle Purchasing
• Consolidated Insurance Pool
• Reduce Overtime
• Save Money on Vacant Positions
## The Financial Result

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>Current Operational Organization</th>
<th>Historic Operation Organization</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Budgeted Expenditures</td>
<td>Actual Expenditure</td>
</tr>
<tr>
<td>2012</td>
<td>$1,909,249</td>
<td>$1,728,279</td>
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<tr>
<td>2013</td>
<td>$1,930,358</td>
<td>$1,867,466</td>
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<tr>
<td>2014</td>
<td>$1,932,356</td>
<td>$1,867,466</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$190,270</strong></td>
</tr>
</tbody>
</table>

Note: Saved so much in first year due to vacant positions
Financial Results

Genoa - Oceola Sewer & Water Authority
Cash Balances
September 30, 2000 - September 30, 2012

Marion, Howell, Oceola & Genoa
Sewer & Water Authority
Cash Balances
September 30, 2000 through September 30, 2012
Data Management – Level 1

System Statistics

- 3,200 Water System Components (Hydrants, Valves)
- 2,250 Sanitary System Components (Manholes, ARS, Valves)
- 75 Major System Components (Towers, BS, PS)
- 800,000 l.f. Pipe
- 1,600 Record Drawing Sheets
- 7,000 Lead Sheets
- 36 Sq. Miles of Area

NOTE: $500,000 In Repairs to Valves, MH’s, Curb Stops from Poor Construction Closeout
Taking Data to The Next Level:

- **Tackling New Growth Again:**
  - Initiate Standard Procedures for All New Taps to our Systems
  - Perform Final Construction Close-Out
  - Integrate New Structures into GIS and As-Built Records
  - Infrastructure Meets Standards Before Acceptance

- **In-House Control of Data**
  - Standardization
    - Major & Minor System Components
    - Operational Data

- **Records Management Policy**
Example: As Built Records & Maps

- Our previous record file management plan:
Example: GIS & Maps – Latson Road Interchange
Can We Improve our Infrastructure Life Span?

Yes!

- Examples of New Programs Initiated:
  - Water Valve Locating and Exercising
  - Annual Air Release Valve Inspection
  - Annual Valve Vault Exercising and Inspection
  - Annual Submersible Pump Pulling and Draw Down Testing
  - New SCADA Systems
Conclusions

YES

1) Public Operation Can Save Money
2) Publicly Employed Staff Can Do a Great Job
3) Public Administration Can Better Anticipate and Control Budget Costs
4) Can Improve Value and Life Cycle of Our Assets

NO

1) Public Operation, When Compared to Oversight of Private Operation Scenario, Requires Equivalent Levels of Government Administration
Lesson’s Learned

- Transitioning Was Much More Difficult Than Thought
  - Needed a new Organizational Chart
  - Policies and Procedures
  - Hiring
  - Insurance, Vehicles, Fleet
- Need Strong Administration with Either Public or Private Operations
- Do Not Underestimate Power of Consolidating Services for Cost Savings