



Public-public partnerships

A backgrounder on successful water/wastewater reengineering programs

*Prepared by Public Citizen's Critical Mass Energy and Environment Program
Nov. 21, 2002*

Many cities have come to the conclusion that their vital water and wastewater services could be operated more efficiently. Private companies offer themselves as the solution. But private companies hired to run municipal water and wastewater systems haven't posted a very good record, and communities are wisely viewing privatization with increased skepticism.

Fortunately, a better alternative is out there. A number of cities across the country have successfully reorganized the operation and management of their water and/or wastewater systems under continued local, public control. Those reformed systems have saved money, rewarded employees and enhanced services while maintaining or improving water quality and protecting the environment. In some cases, public system reforms have saved even more money than promised. But instead of those additional savings getting drained from the community in the form of company profits, as would be the case if the system were privatized, the extra savings are re-invested back into the community.

The results are in

- In 1996, the **Phoenix** Water Services Department and AFSCME Local 2384 formed the Participative Association of Labor and Management (PALM) to enhance efficiency, assure quality and keep rates low. The five-year goal was to save \$60 million. Instead, it saved \$77 million. Originally addressing water production and wastewater treatment plants, the next phase of PALM will extend the reengineering program to the department's management services division.¹

- In the first two years after implementing its "Bid to Goal" program to enhance operational efficiency in 1998, the **San Diego** Metropolitan Wastewater Department saved \$37 million, nearly doubling the targeted savings amount.² The program, established in collaboration with the San Diego Municipal Employee Association and AFSCME Local 127, will easily meet the \$78 million projected savings over the six years covered in the initial memorandum of understanding. The city is now preparing to expand the Bid to Goal program to other departments and divisions in city government.³

- Amid talk of government failure and with private contractors looming, the **Miami-Dade** Water and Sewer Department established “POWER”—the Partnership Optimizing Water and Sewer’s Efficiency Reengineering Program. Between fiscal year 1997 and fiscal year 2001, operation and maintenance expenditures were reduced by \$52 million. As a result of the program, established in collaboration with AFSCME Local 121, employees received \$1,133 as a special recognition increase for verified savings of \$9.4 million in 2000 and \$519 for savings of \$4.32 million in 2001, while not raising water or sewer rates since 1998.⁴

- The King County (Washington) Wastewater Treatment Division saved \$2.8 million in 2001, the first year of its “Productivity Initiative”—despite skyrocketing electricity costs that hammered the west coast for much of the year. The **Seattle** area program has targeted savings of nearly \$70 million over ten years. Developed in partnership with SEIU Local 6; Teamsters, Local 117; and Washington State Council of County and City Employees, Council 2, the program targets most of the savings to reduce future rate increases. Employee incentives are key to the program’s success, and \$702,500 went to about 700 eligible employees who made the savings possible in 2001.⁵

How do they do it?

Water and wastewater systems are complex, presenting numerous challenges but also countless opportunities for efficiency. Of course, different systems will find different specific ways to save money. King County, for instance, made immediate savings by purchasing its own trucks and trailers to haul biosolids instead of contracting out the work. In Phoenix, one of the most significant innovations involved combining operations and maintenance to make everyone responsible for both, and then optimizing staff during shifts other than 8 to 5. In Miami, employees generated more than 3,000 suggestions covering virtually every facet of operations and maintenance. The suggestions were prioritized and evaluated by employee/management teams and then implemented when warranted.

Judging from the examples in other communities, public water and wastewater employees and managers have plenty of ideas to save money. Too often, perhaps, the missing ingredients in systems that have not been reengineered are employee incentives to prompt innovation, and management flexibility that allows innovations to occur. And while the specific procedures for saving money will differ from city to city, there appear to be some basic reengineering concepts that create incentives, flexibility and an innovative-friendly environment. Those concepts tend to fall into categories of goals, standards and accountability.

Goals: No reform or reengineering program can be successful unless measured against concrete targets. In each of the successful examples cited above, the cities first established the cost of operating their system under prior management structures. Once that cost is established, cities look to costs incurred in other systems, EPA models, results or likely results of private bids in competitive bid processes, “best practices” and other sources to determine a workable savings target, and a schedule to meet the target.

Standards: Saving money is not the top priority of a water and wastewater system. Providing clean water and reliable service is. Service levels must be defined, including compliance with environmental standards and maintenance of adequate staffing levels.

Accountability: Budgets are based on the goals and standards, and a system of monitoring must be established to measure whether performance is in fact meeting targets. The reengineering program is usually written into a memorandum of understanding, and failure to meet targets could result in the MOU being cancelled and decision makers seeking alternatives to reengineering—perhaps even a consideration of private providers.

Extra points

Saving money, retaining local accountability and enhancing system performance aren't the only reasons that policy makers, public system managers, public system employees and ratepayers should embrace the reengineering alternative.

Speed. Public employees can implement, and begin realizing savings from, a reengineering program relatively quickly, perhaps in a matter of months. Administering a competitive bid process, by comparison, is invariably plagued with delays and can take years and cost millions while uncertainty paralyzes the public system and hammers employee morale. To top it off, spending all that time and all that money finally culminates in a private operator that, judging from recent experiences in Atlanta, Bridgeport and other cities, will be more of a problem than a solution.

Money stays at home. Another significant advantage to reengineering derives from one of the key features of a successful reengineering program, labor-management cooperation. If a private company saves more money than what it's promised—often a result of cutting corners, slashing personnel below acceptable levels, failing to perform maintenance or otherwise neglecting the public interest—that money goes to the private company in the form of profit. It's why the company is in business. Under reengineering, by contrast, cities have established productivity incentive programs, sometimes called gainsharing. Under those programs, when savings exceed targets, employees are entitled to receive a portion of those savings, with the bulk of the additional savings used to lower rates, help fund capital improvements or otherwise benefit the system and ratepayers. The money stays in the community.

Notes

¹ "The Participative Association of Labor and Management," AFL-CIO Working for America Institute case studies, www.workingforamerica.org/casestudies/pheonix.asp

² Joe Harris and John Williams, “Contract Operations—Public or Private? San Diego Metro’s Big to Goal Effort Reaches 3rd Anniversary,” HDR Consulting

³ “Wastewater Treatment—Operations and Maintenance,” City of San Diego Competition Program Project Descriptions, www.sandiego.gov/competition/operations

⁴ “Efficiency Program,” Miami-Dade Water and Sewer Department, www.co.miami-dade.fl.us/wasd/eff

⁵ “Employees use new ways to do business, save \$2.8 million in cost-cutting program,” King County news release, Aug. 7, 2002.; King County Department of Natural Resources and Parks Wastewater Treatment Division Productivity Initiative Annual Report 2001, September 2002.