



Presentation to the
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Long-term Contract Operations of Water/Wastewater Treatment Systems

Olsson Associates
Alternative Resources, Inc.


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Types of Public-Private Partnerships

- ☀️ Contract Operations
- ☀️ Design/Build
- ☀️ Design/Build Operate
- ☀️ Lease
- ☀️ Sale



History of Contract Operations

- ❑ Majority short term contracts
 - ❑ For O&M of water and wastewater plants
 - ❑ Few collection/distribution systems
 - ❑ Few pumping stations
 - ❑ No laboratory services
 - ❑ No billing and collection
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Characteristics of Short Term Contracts

- ◆ Limited \$ for capital improvements
- ◆ Limited \$ for non-routine maintenance
- ◆ Municipal approvals req'd for major expenses
- ◆ Most risk rests with municipality
- ◆ No incentive for vendor performance beyond the minimum contract requirements

Characteristics of Long Term Contracts

- ➔ With advent of IRS rule changes Jan,97 - 20 year term with one 5 yr renewal
- ➔ Management of assets
- ➔ Performance guarantees
- ➔ Tight maintenance contract provisions
- ➔ Risk transferred to the private operator
 - WWTP performance, chemical spills, cost of service (others DON)

Advantages of Long Term Contracts

- * Significant service fee cost savings
- * Complete asset management
- * Incentives for private investment in plant
- * Municipal approvals for expenditures not required - maintenance is not deferred
- * Stabilization of user fees

Protection of Assets

- ✦ Long term asset management
- ✦ Full responsibility for all “inside the fence” activities
- ✦ Detailed scope of services define level of service expected
- ✦ Precise performance standards define operation and maintenance activities
- ✦ Municipal contract monitoring over the 20 year term

Components of Asset Management

- Commitment to proper maintenance
- Municipal contract monitoring -due diligence
- Performance testing
- Plant must satisfy performance requirements throughout contract term - up to last day

Labor and the Long Term Contract

- ▶ Equal or better pay and benefits
- ▶ Opportunity for advancement
- ▶ All employees maintain employment
- ▶ Employee leasing agreement possible
 - ✦ Invitation to join private operator
 - ✦ Option to remain municipal employee
 - ✦ Payment made to municipality for employees
- ▶ Staff reductions due to natural attrition

Procurement of Long Term Contracts

- ◆ Setting objectives
- ◆ Defining key business terms and conditions
- ◆ Preparing the procurement documents
- ◆ Interacting with prospective proposers
- ◆ Evaluating proposals received
- ◆ Select most advantageous proposal
- ◆ Contract negotiations

Why Municipalities Find It Difficult To Compete

- ➡ Local procurement constraints and regulation
- ➡ Change slowly initiated
- ➡ Capital repair & replacement \$ must be constantly approved -- risks deferment of needed service
- ➡ Politics encumber efficient action
- ➡ Hidden agendas of "election cycles"
- ➡ Lack of support for municipal wwtp staff

Allocation of Risk

- O&M service fee is fixed fee - risk to private party for absorbing unforeseen costs
- Performance of private operator guaranteed
- Environmental compliance is a risk of the private operator
- Disposal of residuals is private operator risk

Cost Savings From Long Term Contracts

- Inherent efficiencies in long term control
- Procurement of supplies and materials
- Encourage cost-effective O&M services
- Service fee not over-inflated budget, actual bid cost
- Incentives for private contractor to implement cost saving capital improvements

Ensuring Private Vendor Performance

- Corporate Guarantee
- Highly detailed performance guarantees
- Performance bond over the 20 year term
- Labor & materials payment bond over 20 year term
- Annual independent inspection
- Encouragement of capital repair & replacement
- Tight contract terms defining O&M obligations

Key Business Terms and Conditions

- Performance guarantees
- Regulatory compliance risk
- Fixed price - defined, predicable service fee
- Change in law risk
- Force majeure risk
- Indemnification
- Payment for transaction costs