



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

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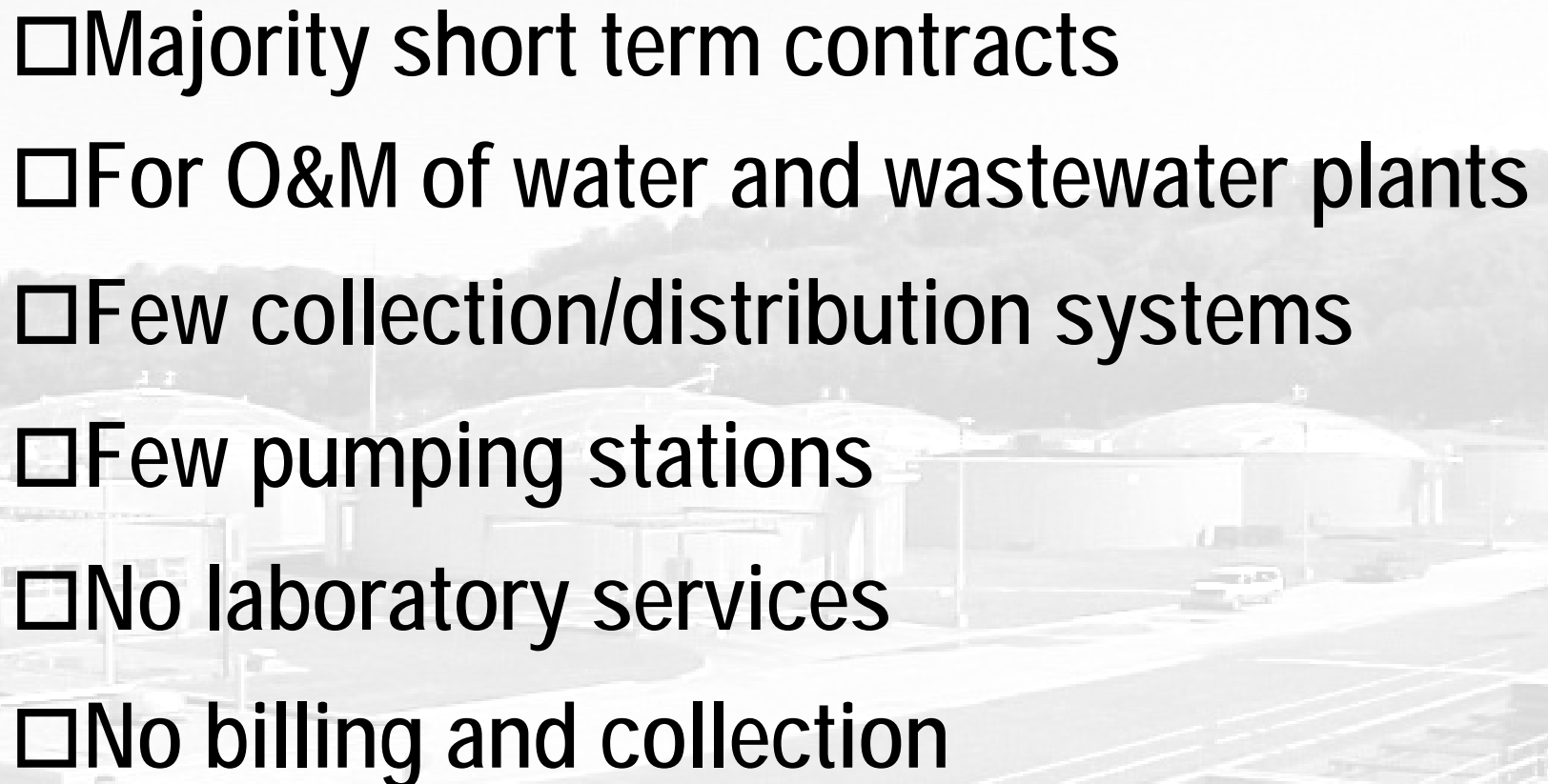
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Types of Public-Private Partnerships

- **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

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, predictable service fee
- Change in law risk
- Force majeure risk
- Indemnification
- Payment for transaction costs