

By Don Renner

# Privatize *Without a Contract*

**T**he manner in which your plant performs its function and operation as well as the physical appearance of the plant and personnel often are perceived differently by the public and administrative leaders of the community than by the operating personnel. Even though you are most likely doing a good job of operating the plant, critics exist. Therefore, it is good to sit down occasionally and take an outside look at your operation. Forget the status quo and see if there is room for improvement that will enhance the public's perception of your plant.

## Privatization

The officials and administrative leaders of many water and wastewater utilities often feel that the only way to reduce operating costs, improve operating efficiency and meet current and future regulations is to privatize the operation. Sometimes they do not want the responsibility of dealing with all of the federal/state regulations. Often their perspective and motives for privatization are

driven by the promise of how much money will be returned to the community when the utility is contractor operated.

There are a number of smaller utilities that might benefit from being run by a contractor who has more purchasing power and a greater pool of more highly skilled labor. However, in most cases the contractor utilizes most of the existing operating personnel and only brings in a manager to provide direction. Most savings come from reducing labor costs and improving operating efficiency.

## Improving Operating Efficiency

So then, why can't you privatize yourself by improving your operating efficiency? Do you want to call it optimizing or re-engineering? Basically, the plant is run as an enterprise—a business unto itself—although it may be restricted from making any substantial profit.

In a number of utilities this process already has happened. Instead of being privatized, the plant personnel were allowed to bid against the contractor and won. In these

instances, the utilities took a hard look at their operations and determined where they could save time and money. This is the same process a contractor would go through. The big difference is that the utility continued running the plant and proved that it was capable of meeting the challenge.

The question is "how can a utility change?" First of all, to achieve any sort of change in plant operating procedures, there must be a consensus of opinion by all parties concerned. This includes all plant operating/maintenance personnel as well as the administrative and supervisory personnel. Without this total agreement, as well as the approval of the governing board, changes in operation cannot be accomplished.

Agreement is not so easily achieved. It takes time to convince upper management that cost savings are available from reengineering the plant. While the community may not receive "direct money" from any cost savings from improved operations, the indirect savings can be reinvested in the form of new modernized capital equipment and a stabilization of rates charged to the customers. In locations where there is a lot of new construction and expansion of operating areas, the rate stabilization should be a plus to any governing board.

Additionally, there are many instances where politics and patronage play a crucial role in how a plant is operated and who works there. For example, an employee may be granted "special privileges" because he has worked there a long time but cannot really handle the job. It is an unfortunate situation, but when the "old buddy" system is in place, it is hard to make or accept changes in the operating characteristics of a plant. It is sometimes even more difficult to get personnel to accept the responsibilities of following new regulatory mandates that are now a part of standard operating procedures. The old cliché, "If it ain't broke, don't fix it," has not entirely left the workplace. In these situations, placing

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the plant under contract operations may be the only way that change can take place.

However, changes are taking place in the political arena, and government is becoming more open and responsive to the needs of the community and its relationship to "old time" employees. Most governing bodies today cannot operate the way they have always done in the past.

Once the concept of self-privatization has been accepted, the next step is to take a close look at the entire operation and determine just what is needed to accomplish the task. Specifically, how are processes going to have to change and how much new equipment (if any) is needed to accomplish this change? In addition, what changes in the operating procedures are necessary that can relate to cost savings? Many private contractors achieve savings by streamlining procedures and reducing the number of operating personnel.

A thorough assessment of existing operating procedures must be done before any changes can be made. This assessment should then be reviewed by all operating and supervisory personnel looking for improvements in operating efficiency. This does not mean that people will have to be laid off just to reduce the number of operating personnel.

Getting employees to participate in the process should not be a problem. Many of today's operating personnel welcome the opportunity to speak their mind about how the plant should be run. While many of the comments can be very constructive, a few might be self-serving. Another good idea is to visit one or two other plants to see how they perform certain functions, or have them visit you and critique your operation.

It should be noted that changes in operating procedures seldom are made easily, especially if unions are involved. Union work rules often prohibit the shifting or combining of work schedules or tasks and limit the type and duration of work that an employee may perform. Some unions are not as demanding as others and are willing to discuss changes in operating procedures and employee assignments if it means that the employees will retain their positions or



pay. A utility being run by a private contractor might not recognize the union.

### Cross Training

The greatest savings that can be achieved by changing operating procedures most often are based on the shift operating schedule. Changes in the shift hours (10 or 12 versus 8), number of operators on duty and night versus day manning levels are the most common. Additionally, automation often permits the use of fewer operators to monitor the plant and permits the on-duty operator to perform other tasks such as minor maintenance, equipment repair and/or housekeeping. Although many plants leave the housekeeping to a specific person(s), it is this author's belief that a night shift operator (if there is one) can perform a certain amount of housekeeping without jeopardizing his safety or interfering with his other work tasks. The same principle applies to people who are on duty during the weekend when plant activity is at a minimum.

In fact, there are many activities that an operator can do instead of sitting in front of a control console waiting for an emergency to occur. Many of these tasks involve doing paperwork or various types of tests. While these duties may seem mundane, they are more productive than doing nothing at all. Data entry for updating operating reports or maintenance data files are necessary tasks that can relieve the workload of other personnel.

However, make sure the persons entering the data are familiar with the process. If these people have not been trained in the proper input techniques, they can do more damage than good.

If a plant wants to work toward privatization, at least two or three persons should be trained to perform any specific job. On the flip side, all persons should be cross-trained to

perform more than one function. No plant can afford to have a "specialist" working for it.

This cross training not only reduces the number of operating personnel for any specific task, but also permits the plant to be operated more efficiently. It also means that when one or two persons are sick or away on vacation, other personnel can fill in. Cross-training not only gives the employee better self-esteem and the feeling that he is a part of the team, but also reduces the problems of operating the plant in an emergency situation such as a flood or snowstorm when it is inaccessible for any outside assistance.

Another way to reduce operating costs is to limit the number of personnel that perform a given task. In many instances two or more persons are required to perform a job. However, when only one person is needed, only one person should be assigned the task. If two persons are needed, then two persons operating independently can meet, perform the work and then go their separate ways once the task is completed. Nothing costs more than to have two persons riding around to do one person's job unless specific safety concerns are critical factors.

### Bulk Purchasing

Purchasing is another area to explore for savings. Better purchasing procedures and open bidding for chemicals and other items including the substitution of alternative materials can achieve savings. Joining forces with other agencies (police, fire, school districts, other utility plants, etc.) to purchase basic supplies (cleaning materials, paper products, etc.) does not often achieve large savings, but all savings count when operational expenses are examined.

Savings also can be generated by the bulk purchasing of materials, either by joining other groups or purchasing materials on



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an annual basis. This method not only often results in better prices but also allows the plant to have the materials drop shipped when they are needed. The same technique applies to maintenance parts. Ordering certain items in quantity (10 or more) should result in cost savings over the purchase of only the number of pieces that are necessary.

All bulk purchased items should be used within 12 to 18 months and not remain on the shelf for years. Bulk lubricants are a good example of where a quantity discount can be advantageous. Drum prices of lubricants are much lower than those purchased in quart or gallon cans. When purchasing in volume, one also must consider storage or transportation (if required) for some materials.

### Upgrading the Plant

Modernizing or upgrading the plant equipment is another way of improving efficiency and reducing operating costs. Although some of these improvements are costly, they pay for themselves over several years and not only improve the plant operation but provide for better record keeping. Improved monitoring equipment also prevents the plant from violating various regulations by alerting the operators to any abnormal conditions.

The use of SCADA (supervisory control and data acquisition) equipment simplifies the manner in which the plant is operated, usually by taking over the monitoring of the plant from an operator. The biggest drawback to these systems is their initial expense and installation. Once they are in place, they should provide seven to 10 years of satisfactory operation. After this

time, their built-in obsolescence requires equipment upgrades and improvements.

Another way to modernize your equipment is to place all "specialized" equipment (instrumentation) under contract with someone who works exclusively in this field. This practice is especially beneficial if the plant is small and has minimal instrument maintenance requirements. While this might cost some money, it eliminates the need to have several of the plant's operating/maintenance staff trained in a specialized area. It also reduces the expense of retaining expensive test equipment that is not used regularly.

Reducing or eliminating some tasks can bring efficiency. For example, transferring the cleaning of lift station wet wells to the public works or sewer department eliminates not only the task but the equipment needed to perform the task. Maintenance of the grounds and buildings also could be transferred to other departments or contracted out on a part-time basis. Again, this sub-contracting may cost some money, but plant personnel then can be used for other more pertinent tasks.

### Financial Planning

Most municipal utilities by law are not permitted to make a profit. However, that does not preclude them from making money that will be used to pay off bonds and to invest in more capital equipment. The rates that are charged should include all operating, maintenance and improvement costs including money for equipment improvements and future plant expansion.

All too often, new plants are built and the rate is set low to cover only the operat-

ing expense so as not to unduly burden the residents/customers. This practice operates the plant in a negative cash flow thereby eliminating the ability of the plant to perform properly. At other times, the rates are set high and the excess is diverted from future plant expansion to pay for other "services" that the municipality wants to provide "free." Neither of these is a good situation, and it is the author's belief that a treatment plant/utility should be run as a business, following good business practices.

These good business practices include the establishment of a sound financial basis for the plant operation. This means following strict accounting procedures, good investment practices (depositing payments in an interest bearing account), depreciating equipment values to provide for future replacements/improvements and any other accounting procedure that provides an actual projection of cash income versus operating expense.

While the financial side may not be as important in determining how you improve your operating efficiency, it is an important part of privatization. Without a business approach to operations, a private contractor could not offer any savings or payback for running a plant.

Even if your plant is not in jeopardy of being privatized, it is a good idea to keep improving your operation. With all of the new operating and monitoring equipment on the market, it is easy to upgrade your operation at a relatively moderate cost. Additionally, changes in flow (both volume and chemical makeup) often dictate the need for new equipment and plant improvements. All of these factors work in your favor, giving the perception that you are a "quality plant," thereby reducing the need to have someone else do your job.

#### About the Author:

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