

Contract Management Services

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Over the past several decades, many communities have contracted with private management companies to operate their public water supply systems. Such arrangements have become an important option for communities of all sizes. They take many different forms depending on the needs of the community. My purpose in this paper is to describe the different ways that communities and service providers work together toward the goal of providing safe and reliable water. While these arrangements are not confined to systems serving fewer than 10,000 customers, I will focus on that segment of the market.

Contract management services have now existed long enough to permit the strengths and limitations of these arrangements to be assessed. Unfortunately, most of the articles written to date have focused on large systems serving more than 25,000 people, including systems serving more than 1 million. Moreover, these articles tend toward the elliptical, offering glowing reports of the advantages or terrifying reports about failures.

The truth of the matter is that contract management services do not make sense for all public water supply systems, small or large. They require a good match of public needs and private capabilities. Each system's governing board must weigh the advantages and disadvantages of particular contractual arrangements and individual service providers to determine whether contract management services are the right solution for their system.

Functions that Can Be Contracted

Supplying water requires that a number of separable tasks be undertaken in a coordinated way. Some, but not all, of those services can be provided by providers that are not part of local government. The following sections consider some of the services that a small system might want to contract out and why contract services provide a viable way to provide these services for some small communities.

1. System Operation by a Licensed Operator

Of all the functions that must be performed by a viable water system, the involvement of a licensed operator is the one most often obtained through a private service provider. Years ago, becoming a licensed operator usually was accomplished on the job. A person could go to work for a village or rural water system as a meter reader or maintenance person and learn the basic skills. Within a short time, he or she was granted a license or could take and pass the basic tests then used to judge proficiency. There were few training requirements before or following licensure. Operators were easy to secure. The modest technical demands allowed operators to serve more than one system as long as day-to-day maintenance issues were addressed by someone else. But, times have changed. To become a licensed operator today requires some college training. To remain licensed, an operator must satisfy continuous education requirements to ensure their knowledge and skills are up to date. A greater awareness of liability issues has reduced operator willingness to moonlight in a community down the road where he or she does not have a role in system maintenance.

Yet another factor driving changes in the market for operators is the growth in the cost of benefits such as vacation and sick leave, health coverage, and retirement. Many small systems simply cannot afford a full-time operator or effectively manage the leave and liability issues. Contracting out for operator services to a company with more than one operator provides a big advantage in covering leave periods. It can also add to the knowledge base. Experience in other systems and places can be a big help when addressing an issue in a particular system. External service providers can provide this window to the larger world.

2. Computer Billing Services

Ten or fifteen years ago, computerized automation of management and operational functions was beyond the reach of most small communities. The machinery and software were expensive, and few small communities possessed the know-how to apply and maintain those systems. Even though the hardware costs have decreased, the software costs can still keep small systems from becoming automated. Many small systems still operate with manual billing procedures. Those procedures prevent effective aggregation and tracking of overall system trends. They do not easily support diagnosis of problems or planning for the future.

Management service providers are equipped with efficient management systems. These systems can speed up billing cycles, track customer status, and decrease the frequency of nonpayment. They can report on overall system performance and be used to detect problems such as leakage. Because the service providers typically serve multiple systems, they are able to spread the fixed costs of training, maintenance, and upgrading of these systems, thereby reducing the costs to individual systems.

3. Meter Reading

Reading water meters is a simple but essential task. It does not require any detailed training and is a very repetitive task. But, not only must it be done regularly and reliably, meter reading also provides a unique opportunity to gather first-hand information about operational problems. An astute meter reader can discover a water leak on their rounds before a large amount of water is lost. The meter reader also is an important interface with customers.

Many small community water systems do not have enough connections to keep a meter reader occupied full time. In addition, experience with other systems can help a reader develop data gathering skills that improve her or his effectiveness for each of the systems.

4. Treasurer

A treasurer provides essential support for the governing board of a water system. The monthly, quarterly, and annual treasurer's reports as well as yearly budget projections are indispensable for understanding whether a system is financially sound. Furthermore, the treasurer verifies and pays the accounts payable on time, manages the accounts receivable, and manages cash flow and investments. In a very real sense, the financial security of the system is largely in the treasurer's hands. A good treasurer can, at the very least, not cost the system money in bank charges and late payments. More likely, the treasurer can earn valuable non-operating income for the system by investing funds properly and paying bills early to receive discounts. Any savings or non-operating income that can be realized is money that customers will not have to pay in higher monthly user fees.

In many small communities, the treasurer's duties are given to someone with little accounting training. They are left to perform the duties just like the last treasurer. More times than not their main duty is to pay bills, collect money, and inform the board when funds are getting low. They may be poorly equipped to provide management reports needed by the governing board.

A contract service provider can supply the treasurer's functions. The service provider will typically be able to offer personnel with an accounting background able to provide the cash flow services while also being knowledgeable about the role of financial information in management decisions. Accounting firms that perform required annual audits are among the potential providers of these services. Another source is an engineering firm that provides technical services. Engineering firms typically have an accountant or business manager on staff. These two sources generally are already familiar and provide advice on other matters. The provision of business services is an extension of existing relationships.

In addition to these four core services, external providers can assume responsibility for hook-ups and mainline repairs. For a great number of water systems, the tap-on fee comes nowhere close to covering the costs of installation. Many systems seem to believe that they need to keep their tap-on fees low (e.g., under \$500) irrespective of the real cost. For those systems, referring installation to a licensed contractor who can charge the true cost can make an immediate positive financial improvement for the system. The system can collect a modest tap-on fee and still control the material that goes in the ground, but the labor cost is fully picked up by the customer.

These are some of the tasks that can be easily contracted out and provide a benefit to a small system. The benefits can be both immediate improvements in financial status as well as improved planning, investment, and maintenance for the long term good of the system. One large advantage to contracting out some services is gaining knowledge from the provider as to how other comparable systems operate and perform. The board no longer needs to manage in a vacuum. Through service providers who work with other clients, they can learn good and bad points from how other systems handle particular problems.

Against these advantages, water systems must consider the costs of contractual services. Many times, systems considering partnerships with private service providers are chasing the carrot of large savings. But, for small systems, large savings are rarely available. The real advantage is in realizing more and better services for the same costs or for a small savings. Items such as an 800 number, 24 hour answering service, more than one licensed operator being available at all times, quicker, more comprehensive water usage reports, and more in-depth financial reports and budgets are the types of improvements that should be available with a contract management firm.

Conclusions

A water system needs to weigh its ability to provide each of the essential water supply functions. Where its abilities are limited, external service providers may be able to provide those functions more effectively, with greater discipline and problem-

solving abilities, although probably not more cheaply. But in today's world, with more sophisticated customers than in the past, cost is not the only criteria to be considered. Adequacy of service is more important. Failure to provide customers with reliable, safe water will override cost considerations. An approach that provides more benefits can be justified to customers and be a win-win situation for all involved.

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