

THE TREATMENT ROOM



Water treatment specialist Judith Herschell explores the evolution of public-private partnerships in the U.S. and the factors preventing growth of PPPs.

Gathering momentum for PPPs

The U.S. has lagged behind other progressive countries in adopting PPPs as a project delivery mechanism. In England and Wales, nearly all water and wastewater operations are provided via the private sector. In France, nearly 85 percent of water and wastewater systems fall into this category.

Over the past 10 years, the annual number of signed water and wastewater PPP contracts awarded in the U.S. appears to have decreased, but inquiries into private investment and long-term asset management contracts are more numerous than ever. Contracts initiated in the 1990s didn't engage the stakeholder in key decisions and contracts were high-risk. The result was a decreased interest in the PPP approach. Significant changes are emerging, causing an upswing in the market. The sector has seen a spate of long-term concession deals and proposals in recent months, but some contracts are taking a more conservative turn. They are shorter and more limited in scope, with ownership remaining with the public authority. Performance-based management and service contracts are gaining traction, especially in small towns and rural areas, a trend that is extending into the wastewater market. Previously, multinational companies dominated PPP projects. There is a growing trend to engage smaller, local private sector companies.

What is driving communities toward PPP contracts? Failing infrastructure is causing an increased risk to public health and making regulatory enforcement more complex. Federal and state funds for the water sector are shrinking. Grants provided via the Clean Water Act have dwindled and the Safe Drinking Water Act required system upgrades but didn't provide funding. Tight governmental budgets were stressed by large capital improvement projects. Meeting the more stringent water quality requirements necessitates tax increases or budget shortfalls in other areas, driving communities towards partnership arrangements. Communities have a waning interest in operating water treatment systems. This is exacerbated by the loss of operational expertise as the skilled workforce retires. In addition, increasingly complex regulations result in more complex treatment systems and the need for greater operational expertise.

As the market evolves, new PPP models are emerging. Standard project structures, from least to most involvement by the private entity, include consulting contracts, management support, design-build and design-build-operate contracts, concession leases, and finally ownership by a private investor. Key elements in the success of PPP contracts are to set clear performance targets and accountability for meeting targets, define expectations and contractual provisions, focus on the community's best interest with cost-effective and reliable services, share the risk and reward between the parties, and maintain ongoing communication amongst all parties.

There are many benefits inherent to successful PPPs, including increased efficiency, greater capital improvements, cost reductions and benefits to public health. The likelihood of a successful relationship increases when all stakeholders are fully engaged and communication is open.

Although not an exhaustive list, the following challenges and obstacles in PPP implementation are prevalent:

1. Political influence on the water sector must often be overcome to implement a PPP project. Lack of funding has driven community decision-making to a more pragmatic approach.
2. Communities often resist financing infrastructure improvements through private means and the involvement of private companies.
3. Small communities resist consolidation within a region.
4. Contracting and permitting requirements vary widely between states and are burdensome and inflexible.
5. The public is unaware of the value and cost of water infrastructure. This situation is difficult to change because the public often views water as a right. This perception is intensified as the infrastructure is generally unseen, compared to other types of municipal infrastructure.
6. There is a lack of public and political awareness on how infrastructure projects are funded.
7. The U.S. market is fragmented with a huge number of small systems.

As water and wastewater facilities move toward being run as businesses, the boundary between public and private funding has been blurred by new and innovative financing options. The market has moved beyond the debate of whether public or private oversight is the better approach to a conversation on the best possible option, considering the limited amount of resources. This is not a "one size fits all" era in project delivery. There is growing recognition that good quality service can be achieved, regardless of the service delivery model.

Creatively and effectively combining private sector expertise and public funding options is a key challenge. It remains to be seen whether the improvements made under a PPP contract are sustainable. Time will tell.

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