

Case Study: Buffalo

Background

In 1996, the Commission of Public Works determined that the City of Buffalo, NY needed to develop and implement a plan for managing its escalating costs of water operations. A request-for-proposals (RFP) and bidding process ensued, resulting in the Buffalo Water Board (BWB) choosing American Water to wholly manage the City's water operations. This RFP process marked the first time in Western New York that a long-term Public-Private-Partnership (PPP) was ever considered and implemented.

Determining Needs

Increased efficiency was needed in both the managerial and operational aspects of Buffalo's water services. With a low median income in the area served, the City experienced insufficient collection rates that averaged only \$80 collected for every \$100 billed. Buffalo needed alternative payment delivery methods to encourage customer payment. In addition, its billing system was in dire need of updating and automation, as records were still manually recorded for all 90,000 customers via an outdated index card and filing cabinet system. American Water was also chosen to provide operational expertise. The private provider was charged with implementing regulatory standards to improve the City's water quality and a benchmarking process to measure and enhance technical performance. Within these expectations, Buffalo's unionized workers were to remain employed by and under the authority of the City, yet managed by American Water.

Providing Solutions

In September of 1997, the BWB signed a five-year contract with the company to manage, upgrade, operate and maintain the City's water system. The original contract was renewed and will likely be extended for an additional two-year term in 2008.

In the last decade, significant improvements have been made in the City of Buffalo's business management processes. While a 94% benchmark collection rate was set at the time of contract, the current collection rate is 97%. This 17-point jump in collections has resulted in a significant annual revenue increase. By redeeming revenue from delinquent accounts, Buffalo's revenues have exceeded 100% of service charges in three separate years. James R. Campolong, Project Manager of American Water in Buffalo, noted, "we realized that in order to best serve Buffalo customers and optimize our operations, we had to implement alternative payment methods that offered more flexibility and choice." Collections solutions now include: online credit card payment; over-the-phone payment; payment at Western Union Convenience outlets; in-person payment at a satellite bill-pay office; and a 24-hour payment drop box. In addition, customers receive systematic follow-ups including letters, calls and door hangers to remind them of overdue bills.

From an operational standpoint, American Water has been effective in reducing the average 250-300 main breaks that occur during a harsh Buffalo winter. By installing a data system to monitor and control outlying pump stations and tanks, pump pressure has been made more consistent and has led to a reduced number of breaks and associated

labor costs. Managing excess pressure has made a difference: while 265 main breaks occurred in 2005, only 128 occurred in 2006.

Through the partnership, American Water provides the following services: repair and maintenance of the distribution system; water treatment and pump station operation; residuals management; customer service; billing and collections; and the repair and installation of water meters.

Customized solutions include:

- Automation of manual processes including meter reading, customer accounts, communications, collections, consumption calculations, water quality analysis, work and purchase orders and inventory.
- Introduction of a new phone system with improved messaging and call wait times for customers
- Design and construction of a new, satellite customer service center that improves customer accessibility and staff work conditions
- Upgrading of service vehicles and outsourcing of repairs to reduce vehicle downtime
- Implementation of a new computerized maintenance and management system to record, track and provide maintenance schedules that ensure prompt service response time
- Conversion of “flat rate” to metered water usage and billing, as mandated by New York State, requiring the installation of 60,000 meters in new locations and the replacement of 20,000 old meters resulting in nearly 3.6 billion gallons of water saved each year
- Improvement of water quality by reducing water turbidity (a measure of suspended solids and clarity) by 77%

Employee Management

The BWB and labor unions were initially concerned that the benefits and pension plans of public sector employees would be jeopardized when under private company management. However, American Water proved willing to uphold existing work rules. American Water showed significant flexibility, as they proved willing to integrate their plan into BWB’s already existing public service framework. The BWB negotiated to implement a management model where unionized employees could remain as Buffalo city employees and retain their benefits while working with American Water. This partnership yielded many positive outcomes including no involuntary staff reductions in the water division and a 26% increase in productivity as measured by the number of water customers per employee.

Public Benefit

The PPP between the City of Buffalo and American Water has achieved truly remarkable results. In six years alone, Buffalo saved \$21 million due to operational and financial improvements. The goal set for rate decrease and stabilization during the first five-year contract was met with an initial water rate reduction of 8%. While the BWB sets rates for customers, American Water's improved processes keep payment collections up which increases cash flow and helps minimize rate increases.

Indeed, a profound change has taken place in the city of Buffalo in how water business is conducted as a result of the PPP. Buffalo's willingness to proactively modify its practices, and American Water's managerial and operational expertise has led to substantial cost reductions, measurable performance improvements, and superior service to Buffalo citizens.

American Water's involvement in the Buffalo community now extends beyond water operations. The company has implemented multiple community projects that aim to help disadvantaged Buffalo residents, and has also developed strong relationships with a number of certified minority and women's businesses in its commitment to area business growth. American Water has established itself not only as a good business partner, but also as a trusted partner and good corporate citizen within the Buffalo community.

Conclusion

The success of this PPP is receiving widespread recognition. In discussing the successful partnership with American Water, Mayor Byron W. Brown stated, "The City of Buffalo Water Board's public-private partnership continues to be a 'win-win-win' situation... The city wins by improving its water infrastructure and financial management. The city employees win by preserving valuable pensions and benefits. Most importantly, the taxpayer wins by getting clean, reliable water at a reasonable price and improved customer service." At the 2003 National League of Cities Conference, Buffalo was applauded for participating in such a highly effective and innovative water project. Furthermore, in November 2006, Buffalo and American Water were honored by the National Council for Public-Private Partnerships (NCP3P) for illustrating the best practices and applications in the "Service" category.

SIDE BARS

Facts at a glance

- Contract signed in September 1997
- Contract renewed in 2003
- Lake Erie water source
- 843 miles of distribution main
- 72-78 million gallons per day (mgd) of water flow
- 160 mgd treatment capacity
- 276,000 people served
- 4.67 square miles service area

Measuring Results

- \$21 million saved in six years
- 26% increase in productivity
- 77% reduced turbidity
- 8% rate decrease
- 50% reduction in main breaks
- 3.6 billion gallons of water saved annually