

PUBLIC-PRIVATE PARTNERSHIP: TRY IT IN SMALL DOSES

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Governor Chris Christie has sparked what promises to be a vociferous debate over the benefits -- or not -- of the "privatization" of public services. Within hours of his announcement of a gubernatorial task force, proponents and opponents began to line up the standard ideological arguments. Those against: a completely discredited idea that saves no money and enriches private corporations. Those for: an effective way to get the taxpayer out from underneath the groaning weight of bloated, inefficient government bureaucracies. But the State's precarious finances demand more than the trotting out of these over-used default positions. The task force needs to take an honest look at the effectiveness of public-private partnerships, and that means setting aside tired rhetoric and close-mindedness on both sides of the issue.

As might be expected, any objective survey of public-private partnerships across the country conjures up a 20-year track record of both remarkable successes and flaming failures. This alone should tell us that privatization is no panacea for what ails the work world of government and public services. It isn't a solution for every problem, and it won't work everywhere. Recognizing this, we need to look more closely at the successful public-private partnerships, ones in which employees, communities, taxpayers and private companies alike benefited. Believe it or not, it *can* happen; and it *has* happened right here in New Jersey.

Let's take the wastewater industry. There are many reasons why effective and efficient wastewater treatment is in the public interest. Particularly in New Jersey with its historic pollution problems, properly treated wastewater effluent is critical to the continued rehabilitation of our rivers and waterways. The Federal Clean Water Act imposes heavy fines on municipalities that fail to comply with effluent requirements. The ability to meet environmental standards requires constant and sophisticated employee technical training and large capital outlays. And, finally, if taxpayers are going to foot the bill for all of this, then it stands to reason that their representatives, not a private company, ought to set the annual sewer rates.

For municipal and county sewerage authorities across the State, the major problem arises in trying to meet Federal-mandated environmental requirements in a cost-effective way. To begin with, many sewerage treatment plants are operated by local or county DPW departments. Their employees have limited access to the increasingly sophisticated training and resources necessary to operate secondary and tertiary treatment facilities or complicated and aging combined sewer overflow collection systems (CSOs). Municipal and county governments simply do not have the capital to maintain sewer systems and treatment plants, no less to keep up with on-going EPA mandates. The result is

sometimes dismal: systems in disrepair, barely meeting environmental standards, operated by inefficient and demoralized workforces, at an inflated cost to the taxpayer. With this in mind, the Governor, like others before him, has cast a jaundiced eye on The Passaic Valley Sewerage Authority (PVSA). Perhaps we ought to be looking at public-private partnerships in limited areas, like this, which we know can and do work.

Take for example The North Hudson Sewage Authority (NHSA). In 1988, by order of the federal courts and the EPA, the NHSA (then known as the Tri-City Sewerage Authority) was established with a mandate to handle wastewater treatment for the cities of Hoboken, Union City and Weehawken. The original three cities (West New York was added to the service area in 1996) failed for years to live up to the requirements of the Clean Water Act, and barely treated raw sewage was routinely discharged into the Hudson River. The Hoboken treatment plant was in a state of disrepair, staffed by over 40 workers many of whom did not show up for work. The municipalities, which faced millions of dollars in fines, realized that managing wastewater treatment was beyond their ability to do effectively and efficiently.

The first thing the new Authority did was to enter into a public-private partnership, bringing in a highly reputable, national company to operate facilities and, ultimately, the collection system. Within months, the new company interviewed all plant employees; those who demonstrated a commitment to their jobs were kept on and became employees of the private company, with competitive benefits and an entirely new set of professional opportunities. Those who had been “no shows”, or who clearly expected things to remain status quo, were let go. In less than three months, the plant was operating in full compliance with all environmental regulations, employing one-third as many employees as previously.

This was the first, and thus far only, public-private partnership in the NJ wastewater sector. The partnership, however, did not negatively affect key areas in the public interest. The Authority's assets, the treatment plants and pump stations, were not sold to the private company, and rate-setting and overall policy direction remained with the government appointed Board of Commissioners. Responsibility, however, for compliance with all federal and state environmental regulations was shifted to the private company, and any fines for being out of compliance were paid by it – a strong incentive to meet permit requirements. Long-term contracts, with periodic break clauses, provide stability for local employees, for the Authority, and for the private operator.

Over the last 22 years, the NHSA has been repeatedly recognized by industry associations for the efficiency of its administration (its staff costs have consistently ranged from 1% to 1.3% of its total budget) and for environmental innovation. Its operational excellence has resulted in solid relationships with its regulators, the EPA and NJDEP, a far cry from the prior situation. And its rate increases have been driven almost entirely by the cost of capital improvements mandated by the federal government, not by growth in administrative staff or perks.

This is the sort of approach to PVSA's obvious problems that ought to be carefully examined, an approach that isn't necessarily at odds with organized labor. And it's

feasible because of several factors: the existence of reputable, national operating companies in the wastewater space, a track record of success across the country and right here in the state of New Jersey, the possibility of a role for labor unions, and an ability to keep the most important aspects of public assets in the hands of the public: ownership and rate-setting.

Rather than try to formulate a far-reaching privatization approach that runs the risk of bogging down in uncertainty and controversy, perhaps the Governor's task force ought to first focus on a single sector of our public economy, wastewater treatment. Let's try the public-private remedy in small doses first. We might be surprised at how quickly the patient gets well.

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