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Should Privatization at the Milwaukee Metropolitan Sewerage District Be Revisited?

Report provides early insights on takeback vs. outsourcing consideration

The cost calculus has changed for the Milwaukee Metropolitan Sewerage District (MMSD) when it next considers whether to continue outsourcing its wastewater treatment operations, but other risks related to staffing and economic factors have mounted, according to a new Wisconsin Policy Forum report.

The report was commissioned by MMSD leaders to provide an independent, early look at the pros and cons of continued outsourcing, as the district considers its wastewater treatment operational options before its contract with Veolia Water Milwaukee expires in 2028.

It notes that continued economic turbulence associated with factors like high inflation and an historically tight labor market may call into question whether the timing would be right for MMSD to discontinue outsourcing most operations, as it has done since 1998. The ability of senior MMSD leaders to focus on big-picture objectives, such as environmental goals, might also be compromised by such a move.

But the growing frequency of contractual disputes is a point of concern with the current arrangement, the report notes. And the elimination of the profit margin currently built into the vendor's fee also represents a potential financial benefit for MMSD.

While science is at the core of MMSD wastewater treatment operations, our research finds the decision on whether to take back those operations will extend well beyond scientific or fiscal considerations.

"In addition to assessing quantifiable factors like cost and performance, MMSD's leaders will have to consider murkier issues involving risk, managerial capacity and priorities, and the district's vision for the future," the report finds.

A changing landscape

Eleven years ago, the Forum published "[Downstream Accomplishments, Upstream Challenges.](#)" a report analyzing the fiscal condition of MMSD. It found that overall, "MMSD enjoys sound fiscal health and appears well-positioned for the future." The report noted MMSD differed from other governmental entities in that its "decision to outsource most of its operations has greatly reduced operating budget pressures and risk."

MMSD was considered a national pioneer in the privatization of public sector services when it entered into a contract with United Water Services to operate the district's sewers and two treatment plants in 1998. Two successive 10-year contracts with Veolia Water Milwaukee followed.

Amid a changing financial landscape and with a new contract still several years away, MMSD leaders sought a high-level analysis to help inform their decision on how to move forward with either a "takeback" scenario or continued outsourcing.

Reduced risk, possible tradeoffs

Our 2011 report provided a favorable assessment of MMSD's privatized framework. At the same time, we warned that after substantial privatization savings were realized from the first contract, there might be limits to future potential to wring similar benefits from subsequent contracts.

In the two subsequent contracts, revisions negotiated by Veolia based on actual experience have changed the financial calculus somewhat. For example, under the current 10-year contract with Veolia, a projected profit margin is established for the company, which had not been delineated in the previous contract. MMSD has also assumed greater responsibility for reimbursing the private vendor for energy costs and expenses related to chemicals used in wastewater treatment processes.

Under outsourcing, MMSD continues to enjoy reduced risk, however, including a cap on annual increases to its contractual payment to Veolia; and Veolia's obligation to maintain an appropriate operations workforce, regardless of any challenges associated with employee recruitment and retention. Having a private vendor handle day-to-day treatment operations also has freed up the time of senior MMSD officials to focus on other priorities, like flood control management and response to climate change, the report notes.

Some tradeoffs of the current arrangement for MMSD are that it must cede some authority over operational decision-making, including wastewater treatment processes that impact water quality. Disagreements about such matters between MMSD and Veolia officials have become more frequent in recent years, although both parties cite a continued strong working relationship.

While fiscal analysis will play a prominent role in this decision, considerations also must be taken into account that are not quantifiable from a dollars-and-cents perspective. These include whether MMSD or a private vendor would be better able to meet challenges associated with procurement, worker shortages, environmental standards, and addressing regular maintenance and repairs, as well as whether MMSD's leadership would have capacity to appropriately address the district's overall strategic goals under a takeback versus a continued outsourcing scenario.

Whatever course is chosen, the public will need an approach that delivers both an acceptable cost and the assurance that these critical services will be delivered reliably and effectively. We hope this analysis is helpful to MMSD leaders and stakeholders as they seek to meet these goals.

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