

Efficiency and Programmatic Reductions Strategy

A. Introduction

SPU engaged HDR Consulting to perform an independent review of its business practices and to compare its productivity performance with other similar sized utilities. This review resulted in finding that SPU was a “high performing” utility, and recommended 45 actions to further improve its efficiency and overall performance. SPU believes that most of HDR’s 45 specific recommendations are worthwhile and many should be implemented.

The Customer Review Panel has asked SPU to describe more specifically which efficiencies the utility will pursue, how it will go about implementing these efficiencies, and what cost savings can be expected. This paper is intended to answer these questions, given what we know today.

In addition, this paper describes the programmatic reductions that SPU staff identified to further reduce necessary rate increases without significantly lowering services to our customers.

B. SPU Recommendations on Efficiencies to Pursue and Not Pursue through 2020

General Approach. There are three important overall factors guiding us:

- We will prioritize and sequence a manageable number over the six-year period. This means that, by 2020, some recommendations will be completed, others just begun, and others will be potential future initiatives.
- We will use our own best judgment and collective expertise in order to select the specific actions to pursue and how to implement them within SPU.
- We will learn from each action that is taken and adapt to new information and changing circumstances.

Below is a list of efficiencies, by Strategic Business Plan Focus Area, that SPU believes are critical to implement. We recognize that more planning has to occur before making a final selection of initial actions; however, this is our best thinking to-date.

Several of the efficiencies listed below directly affect our employees. As SPU implements these efficiencies, we will work closely with the City HR/Personnel Department to evaluate those steps and to align our actions to be consistent with any Citywide plan for City employees overall. And, we will continue our practice of assessing and possible position impacts with the equity lens and to balance position impacts between represented and non-represented positions, and between management and field positions.

Transform the Workforce. To address our gap areas of (a) inadequate and inconsistent performance management, (b) inadequate training and development for supervisors and aspiring leaders to fill the pipeline, (c) higher than desired injury and re-injury rates, (d) a lack of effective recruitment, retention and succession planning, and (e) inadequate HR data to fill these gaps, SPU will pursue the following efficiency initiatives:

- Develop and deploy a programmatic and systemic approach to ongoing employee performance management and improvement, resulting in better alignment to the strategic business plan and increased accountability
- Acquire and implement Talent Management technology in collaboration with other City departments
- Develop improved procedures and practices for reducing injury and re-injury rates, and for optimizing return to work performance
- Perform a staff skills and competency study
- Develop succession plans for key positions

Operational Excellence. While the remainder of the efficiency recommendations may touch more than one focus area, they are predominately associated with Operational Excellence. These are listed below.

1. **Realignment.** To improve decision-making, overall accountability, and span of control, SPU will improve the alignment of the SPU organization around three lines of business (LOB), which will include holding LOB Managers and middle managers accountable for understanding and meeting financial targets.
2. **Increasing Field Productivity.** HDR estimates that SPU's field crews could improve their productivity by 15-20% through performing multiple tasks, which has several benefits. For the employee it is an opportunity to learn new skills. For SPU it enables us to create more crews and increase our services, such as cleaning out more catch basins and sewer liens per the Consent Decree. These changes can be accomplished without eliminating any field positions and will require negotiations with labor unions.

SPU has been keeping labor and City HR/Labor Relations informed of the Strategic Business Plan process and discussions throughout, and will continue to do so as the Plan is developed. Labor representatives have indicated they understand the nature of the changes being contemplated and most are willing to enter into those discussions. One promising idea is to establish a working group such as an Employee Involvement Committee to pilot one of the efficiency recommendations to get an early win for employees, labor, and SPU.

3. **Develop Cross-Department Service Level Agreements (SLAs).** HDR identified a number of cost-saving opportunities related to services that SPU receives from other City departments, particularly Finance and Administrative Services (FAS) and the Department of Information Technology (DoIT). HDR is recommending that SPU either take on these services internally or contract them out. SPU agrees that numerous services can be improved, and at potentially lower costs. Our approach, however, would be to partner with other departments and negotiate SLAs with defined performance metrics and defined consequences for failure to meet service targets with lower costs.

SPU will first pursue SLAs with Finance and Administrative Services (FAS), where an agreement on fleet services was signed in May 2014. Then, SPU will work with the Department of Information Technology (DoIT), the next largest cost center for SPU payments to other City departments.

Through the 2015-2020 period, we expect to also use this approach with other City departments providing services to SPU. Our approach will be to work in collaboration with the service providing departments, as we have done with FAS Fleets.

4. Improve financial systems. Through the City's financial system reimplementation project, SPU plans to restructure its project cost chart of accounts to more accurately and transparently track business activities and to provide a better understanding of costs and associated revenues for the various programs and activities that SPU provides. In addition, SPU will improve other areas to better manage its financial resources, including improved reporting at the LOB and branch levels, broader use of current financial tools, staff training, etc.
5. Continue project delivery efficiency work. Continue efficiencies for Project Delivery including improving work with each line of business for defining scope, schedule and budgets of projects, carrying out project control functions, and refocusing staff on project schedule risk strategy. Continue eliminating lower priority work and streamlining processes to shift resources to work directly on capital projects. Review procurement policies and procedures, working toward the best mix of cost effectiveness and risk management.
6. Improve asset management, including:
 - Develop a standard asset hierarchy with data standards for all asset data detail and use throughout the asset lifecycle.
 - Incorporate standard risk management practice into asset planning and decision-making, which includes developing and using definitions of acceptable risk at all levels of the asset hierarchy.
 - Consistently develop Strategic Asset Management Plans for critical assets.
 - Create a Reliability Analysis Function to facilitate reliability analysis and assist Field Operation and Maintenance on maintenance strategies and capital planning priorities
7. Improve technology strategy, including:
 - Develop and implement an IT Strategic Plan to guide technology investments and services in alignment with SPU's business needs
 - Further develop and implement a product management model to ensure core software products are continuously kept current, viable, and secure
 - Provision SPU's workforce with appropriate technologies to enhance mobility and ensure anytime, anywhere availability of SPU business applications and information
 - Update existing policies and procedures to ensure that technology procurement decisions are agreed upon by business stakeholders and IT
 - Improve SPU's external and internal websites to facilitate information sharing, collaboration, and business transactions

What we will not pursue through 2020. SPU makes every effort to utilize its employees to perform all work, but the City reserves the right to contract out for work under the following general guidelines:

- Required expertise is not available within the City work force
- The contract will result in cost savings to the City, or
- There is an occurrence of peak workloads that place the work above the City work force capability.

HDR identified a few cost saving opportunities that could be realized if work is competitively bid and contracted out. This includes outsourcing the maintenance of SPU fleet, and outsourcing solid waste billing and customer services to SPU's existing contractors. SPU does **NOT** propose to explore contract out services for cost savings reasons at this time.

C. Efficiencies Implementation Plan

Recognizing that more planning has to occur before a final selection of these initial actions can be established, the following is how we will go about implementing efficiencies at SPU.

1. Further executive level prioritization of the efficiency actions. This prioritization has already tried to account for linkages to action plans. Identification of such linkages will need to continue.
2. Through a corporate planning unit or team, track progress and performance related to prioritized efficiencies and related Strategic Business Plan objectives and actions.
3. Senior management will pursue a collaborate strategy with labor.
4. Corporate planning unit will coordinate with Corporate Communication for reporting progress on the efficiencies and other actions of the Strategic Plan to employees and customers.
5. Each efficiency action will have:
 - a. An accountable department team lead with assigned team members
 - b. Define team responsibilities
 - c. Defined scope, budget and resource allocation plan
 - d. Milestone Schedule
6. Performance reporting to senior management and city elected officials will occur as follows:
 - a. To the Executive Team quarterly
 - b. To the Mayor's office semi-annually
 - c. To SPU's oversight Council Committee semi-annually
 - d. To our customers on a regular basis

D. Expected Efficiency Savings in Budget and Rate Path

HDR's efficiency report states that, if all 45 efficiency recommendations were implemented, SPU could expect to save \$10 million in annual O&M costs and \$6 million in annual CIP costs, for an up-front investment of \$4 million.

For the 2015-2020 period, given that SPU will not fully implement all 45 efficiency recommendations by 2020, we recommend an efficiency savings assumption in the budget and rate path of \$7.4 million (in uninflated dollars) by 2020, or 70% of the consultant's identified O&M savings. The investment costs necessary to achieve these savings are in the proposed Action Plans, or will be absorbed within the baseline.

These savings will be generated by non-labor costs (\$1 million) and by labor costs (\$6.4 million):

Non-labor savings. SPU commits to a "non-labor efficiency savings" reduction of \$1 million by 2018 to reflect cost savings from efficiencies and from SPU's Action Plans. While we cannot yet identify where these savings will come from, some possibilities include the following:

- Lower vendor costs from centralizing procurement practices
- Reduced payments to other City departments
- Lower L&I costs

Labor savings. Most of the costs within SPU's direct control are employee costs, and most of the efficiency ideas directly affect the productivity of our labor force. Therefore, we believe that most of the efficiency savings (\$6.4 million of the \$7.4 million total) will have to come from labor savings.

This does not mean a reduction in SPU's workforce, but does mean a redirection to higher priority work and a commitment to doing that work more effectively and efficiently. By 2020, our goal will be to have the SBP investment areas fully staffed and underway with no net increase to SPU's overall position count. We can achieve this redirection by implementing the efficiency recommendations described above, and by employing the following City mechanisms:

- Reassigning staff to perform new work (requires going through the reclassification process if the new duties are not aligned with the current job classification).
- Reallocating a vacant or filled position by assigning a new body of work (requires going through a classification review and filling the position through a selection process). Reallocating a filled position could create a layoff condition for the incumbent.
- Abrogating an existing vacant or filled position and creating a new one (requires separate Council actions to abrogate a position and to create a position; abrogating a filled position could create a layoff condition for the incumbent).

While SPU will strive to maximize opportunities to reassign staff, we will need to utilize a mix of all three approaches in order to meet our changing business needs. The risk of layoff cannot be avoided.

The tools described above are not new, and SPU has employed all of them multiple times over the past several years. Since 2010, SPU has experienced two rounds of lay-offs, and since 2008, we have eliminated 126 positions (vacant and filled). Of the 126 abrogations, 43 (34%) were non-represented positions and 83 (66%) were represented positions. SPU's overall workforce is 28 percent non-represented and 72% represented. Going forward, SPU will attempt to continue to fairly balance position impacts between represented and non-represented employees.

E. Programmatic Reductions

Programmatic reductions are defined as decreases to baseline expenditure levels that reduce or eliminate lower priority services or programs, and/or reduce contingency funds and staff capacity to respond to emergent needs. After evaluating and prioritizing the entire O&M and CIP baseline budgets in each of the lines of business, SPU recommends reducing the baseline by \$3.7 million annually in the O&M budget (in uninflated dollars), and \$70 million over the six-year period in the CIP budget. These reductions will have minimal impact on SPU's core service delivery. The actions that will have direct customer service impacts include reductions for: waste prevention outreach and customer engagement; water quality education; localized flood control; and culvert repair. See the table below for more detail on the programmatic reductions.

Summary List of Programmatic Reductions (in \$000's; O&M cost savings are uninflated)

Focus Area	LOB	Action	Annual O&M	6-yr CIP
Customer Experience	Corporate	Corp - Customer Account Services - Productivity improvements in field collection of past due accounts (-1 FTE) -- begin in 2016	(\$87)	
Customer Experience	DWW	DWW - Reduce Water Quality education and outreach	(\$9)	
Environment & Public Health	DWW	DWW - Update CIP estimates for CSO Projects & WQ/Flow Improvement Projects		(\$45,000)
Environment & Public Health	DWW	DWW - Update Program Management cost estimate for Combined Sewer Overflow projects and the Green Stormwater Infrastructure Program		(\$6,400)
Environment & Public Health	DWW	DWW - Reduce outside support for regulatory compliance & policy	(\$37)	
Environment & Public Health	DWW	DWW Source Control - Reduce wastewater behavior change campaign by 25%.	(\$21)	
Environment & Public Health	Solid Waste	SWF - Reduce waste prevention work	(\$229)	
Environment & Public Health	Solid Waste	SWF - Historic landfills. Align budget to actual expenses.	(\$80)	
OpEx	Corporate	Corp - Reduce equipment purchases, consultant contracts, software, etc. in several divisions	(\$491)	
OpEx	Corporate	Corp - IT large projects. Reduce tech CIP planning, specialized work (E#s)	(\$50)	
OpEx	Corporate	Corp - Security, Emerg Mgmt, Safety - Reduce Emergency Management equip replacements	(\$50)	
OpEx	Corporate	Corp - Reduce funds used for special projects and/or contracts requested by the Mayor, Council or SPU Director	(\$32)	
OpEx	Corporate	Corp - Eliminate 30 desk phones for IT employees	(\$30)	
OpEx	Corporate	Corp - IT Ops - Reduce specialized hardware/PC replacement	(\$25)	
OpEx	DWW	DWW - Update CIP estimates for Localized flood control program		(\$6,100)
OpEx	DWW	DWW - Update CIP estimates for Culvert replacement program		(\$5,000)
OpEx	DWW	DWW - Reduce technical, specialized studies in support of Capital Planning (E#s)	(\$360)	
OpEx	DWW	DWW management -- Reduce funds in FOM Branch to address emergent DWW issues	(\$120)	
OpEx	DWW	DWW management - Reduce consultant funds in USM Branch to address emergent DWW issues	(\$84)	
OpEx	DWW	DWW - Reduce funds to standardize processes for capital projects development and for consultants to evaluate aging WPA drains	(\$63)	
OpEx	Solid Waste	SWF - Update CIP estimates for South Park Development		(\$6,500)
OpEx	Solid Waste	SWF - Update CIP estimates for South Hazshed relocation		(\$1,600)
OpEx	Solid Waste	SW - Update O&M costs for transfer station operations	(\$1,000)	
OpEx	Water	WF - HCP non-labor cuts (watershed forest resiliency studies; research and inventory work)	(\$192)	
OpEx	Water	Water - Less budget for technical, specialized studies in support of capital planning	(\$450)	
OpEx	Water	Water - Eliminate or reallocate 2 water LOB positions (TBD)	(\$315)	
		FTE Total = -3	(\$3,725)	(\$70,600)