

2014 Seattle City Council Confirmation

Seattle Public Utilities Director Ray Hoffman

1. *What are your major goals for Seattle Public Utilities (SPU) over the next four years? What do you see as the primary challenges facing SPU during that time?*

Leading a large, complex city department with a \$925 million annual budget and approximately 1,450 employees requires clear vision. Over the past several years that vision has been to deliver services more efficiently, while maintaining and improving service quality, improving our understanding of what our customers value, engaging them to help us achieve our recycling and project delivery goals, and focusing on delivering the best value for their ratepayer dollars. Meeting these objectives depends on the ability of our leaders and our workforce to operate in a culture where teamwork is valued completely and employees are empowered with the training and tools to be experts in their jobs and effective team members. We refer to this culture as One Team.

Above all, SPU must always be conscious that we deliver essential services that are the foundation of Seattle's quality of life. Every customer category – commercial, residential, low income, different ethnic groups – tells us this story. It is not too much to say that our customers understand we must always focus on ensuring safe and reliable drinking water, protecting local waterways and the Sound from polluted storm and wastewater, and providing dependable garbage collection and cutting-edge recycling services.

With this customer perspective, and looking ahead at the next four years, I see three key goals and challenges that SPU faces:

1. Implementing the Strategic Business Plan
2. Meeting regulatory obligations
3. Increasing participation in the Low-income Rate Assistance program

Implementing the Strategic Business Plan (SBP)

This has and continues to be a major effort for SPU. For the remainder of this year I will focus on completing and getting approval of the Plan to ensure it reflects the interests of our customers for service levels and investments at an affordable rate path. I have confidence that with the help of the Customer Review Panel and the guidance of the Mayor and Council, that the deliberate and systematic planning effort we have undertaken for the past 18 months will succeed in providing a robust guide for the next six years. And then, the hard work really begins.

Implementing the SBP presents challenges to deliver on efficiencies that enable us to deliver services at the rates set in Plan. In addition, we must continue to institutionalize One Team, which means delivering better results for customers, ensuring service equity across the city.

In developing the SBP, we identified 45 potential efficiency recommendations. Those that are selected will be prioritized and implemented at different times over the six-year implementation of the Plan. The two most critical areas of improvement involve our workforce

and operational excellence. Examples of recommendations in these areas include developing a performance management program and increasing both office and field efficiency. We believe there are also significant opportunities to improve in areas such as project delivery, financial systems, asset management, and our technology strategy.

A major efficiency identified in the Operational Excellence area is realigning the organization around business lines. I believe this will improve decision-making and overall accountability. As part of this, we would also create a corporate planning unit from existing resources, which would be responsible for regularly updating the Plan and tracking our performance results. I am already thinking through these two fundamental structural changes and believe, together, they represent a significant opportunity for the department to improve accountability, simplify decision-making, benchmark and track improvements, and offer our employees a better ability to understand where their individual efforts contribute to the SBP vision and objectives.

In all that we will do to implement the SBP, SPU is committed to ensuring all of our customers, including low-income residents, are being served equitably. Through our support of the City's Race and Social Justice Initiative, we have developed an Equity Toolkit, which provides a process for planning and decision making. It will be instrumental in the implementation of the SBP whether it is about service delivery options or assessing the equity implications of a project early in the planning process. We will also continue conducting customer research and outreach with an emphasis on reaching non-English speaking customers.

We face a number of challenges in the coming years but our work on the SBP provides a clear look into our future and a vision on how to get there. I have confidence in the SPU team and our willingness to move the department forward to meet these challenges.

Meeting Regulatory Obligations

SPU and the City of Seattle are subject to complex regulatory requirements. We must comply with environmental regulations at the state and federal level related to human and ecological risks. Even our dams and the maintenance of our pipes must meet regulatory guidelines. Likewise, testing SPU's drinking water at our water quality lab is conducted seven days a week, 365-days a year, and many of our capital improvement projects must go through a rigorous environmental review.

One of our biggest regulatory cost drivers is the Consent Decree for the City's compliance with the federal Clean Water Act and state regulations. Over the next 12 years Seattle is expected to spend approximately \$500 million on projects related to implementing the Consent Decree that protects Seattle's waterways from polluted stormwater and sewage overflows threatening human and aquatic health. This will involve large construction projects throughout the city, including retrofits of existing facilities, green infrastructure, large underground storage tanks and potentially a wastewater tunnel. The projects will be very visible and will involve significant outreach to community stakeholders.

While these facilities represent a significant capital investment, just as important is the required program under the Consent Decree related to operation and maintenance of SPU's system. This involves inspecting, cleaning, rehabilitating and replacing our aging wastewater infrastructure to prevent sewage overflows and basement backups. We need to stay within a regulatory threshold of no more than four backups per 100 miles of pipe, which EPA classifies as a high performance system. So far we are doing this but increasing crew efficiency and our ability to glean intelligence from our inspection and cleaning database is critical to staying within compliance and avoiding \$100 million in extra cost to our customers should we fail.

Because meeting these requirements comes with a high price tag, efficiency in our project delivery is essential. In the past year I have initiated efforts to increase efficiencies that drive costs down on construction of our capital projects. We are working hard to better define scope, schedule and budgets, risk strategy and project controls. In the years ahead refining project delivery efficiencies will continue to be an important goal.

Increasing Low-income Rate Assistance Program Participation.

This is a priority for the Mayor, Council and SPU. We will be working with Seattle City Light and the Human Service Department to better understand how to increase participation in the Utility Discount Program. Pursuant to the Mayor's direction, the departments have started the process for identifying and addressing potential barriers for enrollment. We are committed to this and believe it is part of our broader emphasis on service equity. Additional specifics on this topic are in my response to question number four.

2. Strategic Plan. SPU's efforts to develop a Strategic Plan and 6-year rate path are well-underway. How do you think that plan should balance service quality and rate affordability? Please use specific examples that show that SPU can be a steady, reliable, and affordable utility.

Seattle residents and businesses expect and deserve reliable, safe, and environmentally sensitive utility services. I believe they get these from Seattle Public Utilities. SPU provides healthy drinking water to everyone in Seattle and to many others in the region. We have a dependable sewer system. We limit flooding problems. We provide regular, dependable pickup of garbage, organics, and recycling. And we promote environmental sustainability through conservation and recycling, and by reducing pollutants into our creeks, lakes, rivers, and the Puget Sound.

All of this costs money. When we compare ourselves locally and nationally, SPU rates are generally above the average – in some surveys, we are at, or close to, the top for water and wastewater rates. However, when we level the playing field by looking at customer bills instead of rates, and by removing City and State taxes from the calculations, the bills customers pay in Seattle begin to look comparable to other utilities.

That being said, we need to do more to provide affordable, high quality services to all our customers. We are doing just that through the development of the 2015-2020 Strategic Business Plan.

The primary goal for the 2015-2020 Strategic Business Plan is to set a transparent and integrated direction for all of SPU's business lines that reflects customer values, provides rate predictability for utility customers, and results in best value for customer dollars. Among the steps SPU can take to assure customers continue to receive services they value at rates they can afford are:

1. Continually strive to keep costs down by providing services as efficiently and effectively as possible and reducing or eliminating low priority activities.
2. Keep charges predictable so customers can more easily budget for utility services.
3. Offer the opportunity for all of our customers to be partners with us in conservation programs that help them use less of a service or product, therefore giving them the ability to reduce their bills.

To-date, we have identified about \$11 million in annual operations and maintenance reductions that we can achieve by 2020, and \$70 million in CIP reductions from 2015-2020, through programmatic reductions and efficiencies. This will lower the upward pressure on rates, which are expected to go up by 4.6 percent annually from 2014-2020, compared to an average annual increase of 8.1 percent over the last six years.

Will these cost containment efforts result in affordable rates? According to standard industry definitions of affordability, which compare utility costs to median income, SPU's rates are well within the affordability range. But these comparisons do not address the problems of the customers least able to pay their utility bills – the lowest income customers. For this group of customers, SPU offers several programs to reduce utility bills. They include the Low Income Rate Assistance Program, the Emergency Assistance Program, and conservation programs. Seattle has one of the more generous utility bill assistance programs for low-income customers in the country. But in light of continuing rate increases, the Executive Council and the utilities (SPU and Seattle City Light) are working to further expand this program.

In the Strategic Business Plan, we have also identified targeted investments to improve direct services to our customers, and to ensure our workforce, systems, and infrastructure are efficient and effective – now and in the future.

Finally, we are committing to being more transparent and predictable, through setting a rate and service path for all of SPU's lines of business for the next six years – something unprecedented in SPU's history. We commit to reporting to our customers and our elected officials on our progress in meeting the service levels and performance goals identified in the Plan.

3. Labor. *Some of the changes SPU is considering in its Strategic Plan may require changes to the way SPU currently operates. How do you plan to engage the workforce, and the labor unions representing them, in exploring those changes?*

Employees are our greatest asset and engaging the workers who provide essential utility services to the public is critically important to SPU's future success. Identifying and implementing the efficiencies our customers expect cannot occur without collaborative problem-solving and a strong relationship between employees and management. Employees who have input on changes that affect their jobs and a sense of shared purpose have higher job satisfaction and will strive to meet or exceed the standards we ask of them.

The Plan will create a clear linkage between SPU's goals and employees. We call this "line of sight." To implement the Plan we will engage our entire workforce just as we did throughout the SBP development process. I am committed to a management style that relies heavily on teamwork, respect for employees, innovation, workplace safety and customer service.

Being accessible and fostering open communication with employees have been among my highest priorities throughout my five-year tenure as SPU Director. I will continue the practice of maintaining formal and informal channels for conversations with organized labor and non-represented employees as I implement the SBP. Employee surveys, dialogue at leadership meetings, and engaging teams to forge new initiatives are tools I have used in the past and would rely on in the future. I can also foresee chartering Employee Involvement Committees in concert with City Labor Relations as a useful tool for engaging our workforce.

The Strategic Business Plan will require changes to achieve the efficiencies that underlie the Plan's framework. I recognize the importance of forging that change in partnership with SPU's workforce and am committed to strategies that allow for an ongoing conversation.

4. Low Income Assistance. *Despite changes in eligibility thresholds, levels of assistance, and enrollment practices, the number of customers receiving low income utility assistance remains a small percent of those eligible. Why does enrollment remain so low? What will you do in the next few years to help more low income customers gain access to available assistance?*

Service equity is a profound commitment for Seattle Public Utilities. Our Environmental Justice and Service Equity Division works closely with our Customer Service Branch to ensure SPU is serving all members of the community, including low-income customers, in an equitable manner.

The current estimate of Seattle households eligible for the Utility Discount Program (UDP) is 75,000, and enrollment is about 14,000. Over each of the last several years, the UDP has enrolled approximately 4,000 new customers, while a similar number of participants have not re-enrolled.

Despite numerous and varied efforts to increase the UDP enrollment and participant retention, SPU, City Light and the Human Services Department have struggled to understand exactly why only about one in five households eligible for the UDP is participating. Council member Godden's recent initiative to allow seniors to re-enroll in the program every 36 months instead of every 18 months will positively affect program retention.

Possible explanations are: 1) a percentage of participants withdraw because they no longer need the program; 2) the re-enrollment process is creating a burden for low income customers; 3) there is a language barrier for many eligible customers who also may find the necessary paperwork confusing; 4) some may feel there is a stigma enrolling in a low-income assistance program; and 5) others may find the process of producing the necessary documentation for three months of income too intrusive or daunting.

A major challenge has been finding effective ways to interview eligible non-participants about why they are not in the program or why they failed to renew their enrollment once in the program. Efforts to reach these customers by phone can be very difficult for a variety of reasons, including language barriers.

Over the past two months, City Light, HSD and SPU have been meeting to understand our low income customers better and to develop a survey and other strategies to determine why some are not availing themselves of low income rate assistance. Being able to piggyback on other programs where eligibility requirements meet or exceed ours would eliminate duplication in applying for the program. We are also looking at longer eligibility terms for enrollees, something the Council initiated last year for seniors, which could be very effective.

In addition to the strategy for longer eligibility terms, we are looking at better ways to market to new enrollees and are examining ways to better use community social service providers to help us. Examples might include enhancing our coordination with the new Financial Empowerment Centers or staff with the Seattle Housing Authority. We are also working with team members from Seattle City Light and Human Services Department on their outreach programs.

By obtaining more insight into these customers and considering different approaches I am confident that with the Council's continued support we will meet the Mayor's goal of doubling UDP enrollment by 2018.

5. *Capital Project Delivery. SPU completes some significant capital improvements each year. Yet for some projects, such as the new South Transfer Station and the covering of several in-City water reservoirs, SPU has struggled to complete projects within scope, on time, and on budget. What has the utility learned from projects like these? What steps will SPU take to improve project delivery, given that SPU's capital project accomplishment rates have routinely been below those assumed in rates?*

Major building projects to one degree or another invariably have construction issues and unforeseen conditions. Seattle Public Utilities' South Transfer Station replacement and several reservoir covering projects presented unique challenges to us, in large part because they were highly specialized projects that a utility organization like SPU undertakes only every 50 or 60 years.

Among the lessons we learned on the South Transfer Station is the importance of making timely decisions when construction issues arise. From the reservoir program, we learned to invest greater effort in the consultant selection process and to ensure the consultant has a robust quality assurance program. We also learned the importance of holding the designers and contractors accountable for their work products. More specifically, I am asking leaders throughout SPU to focus on improving in the following areas:

- Assure SPU's organizational structure allows us to be nimble and provide both quality work and flexibility.
- Foster a culture of accountability that provides employees with the tools to establish clear performance measures and the expectation for accurately tracking accomplishment rates.
- Refine our expertise in the areas of contracting strategies and negotiations, project control, cost estimating and forecasting.

Last November I reorganized SPU's Project Delivery Branch to insure greater efficiency and effectiveness by creating work groups focusing specifically on project controls and performance management, contracting and project management. We have defined appropriate performance measurements that hold project teams accountable for keeping track of project status and results. This gives management a tool to compare approved plans with actual performance.

We are also focusing on contracting strategies to improve our evaluation and use of alternate contracting methods and to give project teams more control in contractor selection and work planning. Project delivery performance in the first quarter of 2014 demonstrates these actions are producing the intended results. SPU delivered more than \$13 million in projects, compared to the first quarter forecast of \$12.7 million for a first quarter accomplishment rate of 103 percent. We are on track to deliver over \$100 million capital projects in 2014, compared to \$80 million delivered in 2013.

While increasing delivery of capital projects, we are also reducing overhead costs. In the first quarter of 2014, SPU's project delivery overhead decreased by \$471,000, a 30% overhead cost reduction compared to last year.

Our customers have told us we should focus on delivering projects that support essential services and protect the environment while also being efficient and spending customer dollars wisely. This accomplishment rate means we are being more cost-effective with our capital dollars because schedules drive budgets.

I believe that by finding efficiencies and shortening project timelines – without sacrificing quality – we can do more with less. And we can solve the critical quality-of-life problems that these projects address sooner rather than later.

6. Districts. The Council, currently elected at-large, will be shifting to a hybrid at-large and district election system. What elements of SPU's business (such as data management, customer service, or capital planning) might be affected by a district orientation? What options for changes in SPU practices do you envision to address a district orientation?

From the day following voter approval of Charter Amendment 19, Executive Departments have been trying to understand how the new 7-2 council districts system could potentially affect councilmembers and, in turn, how we support and serve the City Council.

The most immediate impact I expect SPU to experience would be in the realm of data collection. SPU already maintains a very robust system of metrics for tracking the quality of services we deliver in each line of business. These include metrics such as missed garbage collections, sewer backups, flooding claims, water shutoffs and responses to emergency calls. However, we do not segregate these data by the newly drawn Council districts, which is something I have asked my staff to begin working on.

With regard to SPU's facilities and infrastructure – both capital and maintenance – our work is largely based on business need and regulatory compliance. However, we do provide ongoing progress updates on these projects and I've asked our staff to look at the feasibility of tracking these by district. In some cases, we've already started to do this. For example, last year's June-December Progress Report for Protecting Seattle's Waterways breaks down accomplishments and highlights by geographical areas within Seattle. Other areas we will be looking at could include mapping crew responses by district and upcoming construction projects.

The Equity Tool Kit is another example of how we may address this issue. We could add information about districts to the tool. I am proud of the work we have done to incorporate the equity filter in all levels of our planning processes. This helps to ensure we are mindful of providing equitable service in all parts of the city. For example, one issue related to service equity relates to geographic equity regarding drainage services. Most of the city north of North 85th Street does not have sidewalks or a formal drainage system. Many residents in the north part of the city consider this a service disparity which their district council member could be expected to try to remedy.

We are doing more neighborhood-based planning that crosses all SPU lines of business, so efficiencies are gained through proactive timing of projects and streamlining of consultant selection processes. This will allow us to better coordinate our work and more effectively communicate to customers what is being planned or executed within their neighborhood, the amount of resources being spent, and what opportunities exist to provide feedback or participate. It also allows us to customize outreach and engagement activities to match the demographic profiles and distinct needs of neighborhoods or districts, so that more trusted relationships are established to (globally) meet our solid waste, water, and DWW goals.

7. ***Council Relations. SPU has made many proposals requiring Council action in the past 4 years. Were there any decisions that did not go as smoothly as you had hoped? Learning from those experiences, what would you do differently to better support the Council decision-making process?***

The City's departments have a critical role in supporting the Mayor and Council by explaining and substantiating the need for legislation submitted on the department's behalf. In the four years since my last City Council confirmation, SPU has initiated approximately 110 Council Bills and Resolutions for Council consideration.

With every initiative or piece of legislation, my goal has been to ensure the City's policy-makers receive timely, accurate and complete information to help in their deliberations. Ultimately, our successful collaboration ensures we are doing a better job of serving SPU's customers and the Council's constituents.

In providing oversight and policy direction to SPU, Council members must have confidence in the recommendations and advice they get from me or my staff. Communication and trust in the advice is critical to Council's ability to consider the full ramifications of the legislation proposed.

The controversy around SPU's new organics collection contract with PacifiClean Environmental is an example of legislation that did not go as smoothly as I would have liked. There were two areas in which we could have improved on that situation. For both it involves better understanding of stakeholder interests and thoroughly communicating those to Councilmembers.

The first area is with union members. Although my staff worked closely with City Labor Relations and informed the group representing the affected workers regarding the conditions in the proposed contracts, we assumed that protecting the jobs of the truck drivers would sufficiently address the union's concerns while saving ratepayers significant costs. My conversations with our committee chair and other members of the committee were not sufficient to ensure that they clearly understood the degree of concern by the union.

The second area in which we could have done better is to have more fully understood the degree of opposition from Kittitas County residents, who were clearly surprised and alarmed at the PacifiClean proposal.

As with many problems, the controversy surrounding the organics collection contract resulted from failures of communication. As department director requesting the legislation, I feel responsibility for not better communicating with our employees and understanding the anxiety the loss of hauling work would cause.

My staff and I also should have asked PacifiClean for more details about the company's community outreach in Kittitas County. While understanding the extent of those engagement efforts may not have affected the concern of the Kittitas neighbors or the Council's ultimate decision, it would have provided a better understanding of the citizens' issues and potentially prevented council members from being surprised by the dozens of concerned Kittitas County residents who vocalized their opposition to the contract.