

## **SPU Proposed Strategy to Achieve Efficiencies**

### **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.

### **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.

After SPU’s first review of HDR recommendations, we indicated to the Customer Panel a priority interest in a subset of actions related to the focus areas of “Transform the Workforce” and “Operational Excellence” as priorities. Below is a further refined list of efficiencies, by 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.

**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.

- Create a corporate planning unit and regularly update the Strategic Business Plan and communicate performance results to the Council, Mayor and customers.
- 2. Improve financial systems. Through the City’s financial system reimplementation project, SPU will 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.
- 3. Develop Cross-Department Service Level Agreements. HDR identified a number of cost-saving opportunities related to services that SPU receives from other City departments, particularly Finance and Administration (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 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) and the Department of Information Technology (DoIT), since from these two departments comes most of SPU’s payment to other City departments. Example services to be governed by SLAs include:

- FAS Fleet – SPU needs service level performance metrics, defined costs associated with services, and improved reporting from the FAS Fleet Management Division.
- FAS Claims Management – FAS investigates and evaluates claims filed against SPU and often uses independent adjusters to assess the damages because of the specialized nature of drainage, wastewater and water claims; SPU needs faster claims handling and lower overhead costs.
- DoIT – SPU needs a better understanding of the services it receives from DoIT and that the costs are commensurate with the value of the services. For example, several DoIT services and cost compare unfavorably with general market rates, such as: telephone services, data network services, and radio network services.

Through the 2015-2020 period, we expect to also use this approach with other City departments providing services to SPU.

- 4. 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 and earn a higher wage. 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.
- 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.
- 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:
- Assign a Chief Information Technology lead
  - 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. 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
  - e.

#### **D. Expected 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 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 (which could require a reclassification if the new duties are not aligned with the current job specs).
- 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 or minimum qualification review). 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).

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.