

## **SPU's Response to HDR Efficiency Recommendations**

### **Overall Comments**

SPU is appreciative of HDR's independent look at efficiency and revenue opportunities. We believe most of the 45 specific recommendations (see attached table) are worth exploring, and we are. As we explore these recommendations, we will:

- Prioritize and sequence to 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.
- Treat the specifics of the HDR recommendations as expert guidance, and use our own best judgment and expertise regarding which specific elements to pursue and how best to implement within SPU.
- Learn as we go, and adapt to new information and changing circumstances.

### **Proposal for Where to Focus Efficiency Efforts First**

HDR has made recommendations in specific areas by comparing SPU with industry and functional best practice. Learning how we measure up is fundamental to improving SPU. Their work has also laid a foundation of learning with a large group of key staff in the utility. Over 200 staff from all levels and work areas of SPU partnered with HDR throughout the process. Thus, the recommendations are grounded in both independent and staff assessment of what is potentially worthwhile and achievable.

Of the 45 recommendations we see value in pursuing, we've highlighted some that initially strike us as high priority:

- Eleven of HDR's specific efficiency recommendations they have aligned to the Transforming the Workforce focus area, in the objective areas of performance control and talent management. There was significant alignment between HDR's recommendation and SPU's internally developed action plans. Most of these will be top priority for SPU over the six-year period. Example recommendations include:
  - developing and implementing an improved staff performance management system
  - developing a succession plan for all business critical positions across SPU
  - Procuring human resources technology
- 28 of HDR's specific efficiency recommendations they have aligned to the Operational Excellence focus area, in the objective areas of Asset Management, Community Sustainability, Financial Strength, Project Delivery, Strategy Effectiveness, and Technology Planning. We are still reviewing the specific recommendations in this area, but our initial priorities are efficiency improvements in the areas of asset management, project delivery, and technology. Example recommendations in these areas include:
  - updating and formalizing the SPU-wide asset management program
  - removing the flat percentage management Reserve Fund from contracts
  - developing an IT master Plan and a mobile technology strategy
- The remaining six of HDR's specific efficiency recommendations are in the Customer Experience and Environment & Public Health focus areas. The two SPU is most interested in pursuing in the short run are:
  - updating the external SPU website
  - setting up a corporate business planning function

Many of the HDR's recommendations that produce estimated O&M cost savings are constrained by City policy. Guided by the direction of our elected officials, SPU will pursue one or more of the proposed efficiency actions. Examples of these recommendations that SPU is considering are:

- Develop service level agreements/ specific performance criteria for services from other City departments
- Explore contracting out where (a) there are peak workload issues, (b) the needed expertise is not available internally, and (c) there are cost savings to be realized. Implementing these types of efficiencies will require approval of our elected officials, and any labor impacts will require collective bargaining
- Explore options for reducing field crew size. Implementing these types of efficiencies will require approval of our elected officials, and any labor impacts will require collective bargaining.

Other SPU Ideas. Independent of the work by our consultant, SPU staff developed additional efficiency and revenue opportunity recommendations that we wish to pursue, including:

- Efficiency savings in DWW crews. These efficiencies include (a) doubling the production of DWW line and grade crews; (b) implementing an every-other-year inspection protocol (rather than every year) for drainage structures and new CSO assets.
- Revenue Opportunities. SPU staff have identified three revenue opportunities, which are (a) implementing system development charges to fairly pay the costs of growth; (b) increase testing and replacement of old meters to ensure billing accuracy; (c) reviewing SPU's miscellaneous, non-rate charges to ensure they reflect cost-of-service payments.

### **Proposal for How to Account for Efficiency Savings in the Rate Path**

HDR estimates efficiency savings from their recommendations will total \$9.86 million in O&M savings per year, and an additional \$6.1 million in estimated CIP savings.

- \$5.7 million of this total comes in the form of avoided costs and productivity/efficiency gains. These mostly represent savings in staff time throughout the utility, and capturing these savings in the form of actual budget cuts and decreases to the overall rate path is a challenge.
- Nearly 40% of the savings (\$3.8 million) is constrained by city policies out of SPU's total control, including potential savings from charges of other City departments, contracting out, and crew size reductions.

To capture efficiency savings in the budget and rate path, SPU is proposing a commitment to a "no net increase in FTE" by 2020. This will result in assumed efficiency savings of roughly \$7.9 million per year by 2020, or 79 FTE savings from efficiencies. Coupled with the 3 FTE savings in the programmatic reductions, this FTE savings from efficiencies would offset the FTE adds to the baseline (20 FTE), the FTE adds in the Action Plans (59.2 FTE), and the FTE adds for revenue generation (3 FTE). This 79 FTE reduction is roughly equivalent to HDR's FTE savings estimate of 74.7 from all HDR efficiency recommendations.

We have, and will use, multiple tools to reach this commitment. These tools include:

- Reallocating vacant positions to the additional work in the baseline and action plan investments
- Reassigning existing staff away from lower priority work to higher priority work
- Abrogating existing positions that are focused on lower priority work
- Requesting and creating new positions aligned with higher priority work.

In addition, to reach the target of no net increase in FTE, we must address the policy issues around contracting out, use of services from other City departments, and crew size reduction.

## SPU's Initial Assessment of HDR's 45 Specific Efficiency Recommendations

**Key to Savings Types:**

Systemically Constrained = savings requiring approval of our elected officials, some with labor impacts that would require collective bargaining.

Action Cost Savings = direct savings to budget and rates

Revenue Generation = actions to increase revenues

Avoided Costs = actions to reduce need to increase costs in the future

Productivity &amp; Efficiency Gains = savings in staff time

#	SBP Focus Area	HDR Objective	Title of Recommendation	HDR Estimated Time Gain (FTE/yr)	Savings Type	Initial SPU assessment: Worth exploring in 2015-2020?	Other SPU comments
1	Customer Experience	Response & Resolution	Outsource Solid Waste billing and customer services to the existing contractors	4.5	Systemically Constrained	No	
2			Update the external SPU website	0.9	Actual Cost Savings	Yes	Covered in SPU Action Plan
3			Improve Customer Call Center services	1.5	Revenue Generation	Yes	Multi-faceted; may select certain aspects
4	Environment & Public Health	Community Sustainability	Update and improve use of Construction Specifications	0.4	Actual Cost Savings	Yes	
5			Create a Strategic Regulatory Interface Management strategy	0.8	Avoided Costs	Yes	
6			Set up a Corporate Business Planning function linked with LOB Planning	0.6	Avoided Costs	Yes	
7	Operational Excellence	Asset Management	Update and formalize the Enterprise Asset Management Program	2.3	Avoided Costs	Yes	
8			Document a standard asset hierarchy	1.9	Productivity & Efficiency Gains	Yes	
9			Create a Reliability Analysis function within Corporate Asset Management	0.8	Productivity & Efficiency Gains	Yes	
10		Community Sustainability	Update the wastewater model	0.5	Productivity & Efficiency Gains	Maybe	
11		Financial	Reduce cost of claims from on-the-job	1.3	Avoided Costs	Yes	Covered in SPU Action Plan
12			Set up an ABC inventory process	1.4	Productivity & Efficiency Gains	Yes	
13			Optimize SPU Procurement	2.3	Systemically Constrained	Yes	Develop service level agreements with specific performance criteria
14			Transition SPU Fleet	2.2	Systemically Constrained	Yes	Develop service level agreements with specific performance criteria
15			Update the SPU financial system and chart of accounts	2.3	Productivity & Efficiency Gains	Yes	
16			Outsource or share the maintenance of SPU fleet	1.7	Systemically Constrained	Yes	Develop service level agreements with specific performance criteria
17			Reduce external claims handling time	1.3	Systemically Constrained	Yes	Develop service level agreements with specific performance criteria
18			Reduce SPU IT Costs incurred from DoIT	2.2	Systemically Constrained	Yes	Develop service level agreements with specific performance criteria
19	Operational Excellence	Project Delivery	Run all new business initiatives through a stage gate type of process	1.5	Productivity & Efficiency Gains	Yes	
20			Coordinate cost sharing on non-SPU originated projects	0.4	Systemically Constrained	Yes	Already underway in baseline
21			Remove the flat percentage of a Management Reserve Fund from contracts	0.6	Avoided Costs	Yes	
22			Expand the use of the standard SPU program management (PgM) methodology	0.6	Productivity & Efficiency Gains	Maybe	
23			Certify Project Managers	0.7	Productivity & Efficiency Gains	Yes	Already underway in baseline
24			CAD staff augmentation	0.4	Productivity & Efficiency Gains	Yes	
25			Set-up a Program Management Information System	1.1	Avoided Costs	Maybe	Already underway in baseline

#	SBP Focus Area	HDR Objective	Title of Recommendation	HDR Estimated Time Gain (FTE/yr)	Savings Type	Initial SPU assessment: Worth exploring in 2015-2020?	Other SPU comments
26	Operational Excellence	Strategy Effectiveness	Align the SPU organization around three Lines of Business	1.8	Productivity & Efficiency Gains	Maybe	
27			Update the strategic plan on an annual	0.5	Avoided Costs	Yes	
28			Create a Chief Information Officer (CIO) position	1.3	Systemically Constrained	Maybe	
29		Technology Planning	Streamline all software procurements through IT	0.8	Avoided Costs	Yes	
30			Develop an IT Master Plan and Technology Product Plans with product manager for all business critical applications.	0.7	Avoided Costs	Yes	Covered in SPU Action Plan
31			Develop an enterprise content management strategy	8.4	Productivity & Efficiency Gains	Maybe	Covered in SPU Action Plan
32			Develop a mobile technology strategy	1.2	Productivity & Efficiency Gains	Yes	
33			Update the GIS platform	1.5	Productivity & Efficiency Gains	Maybe	
34			Establish a standard environmental management system and regulatory data management platform	0.9	Productivity & Efficiency Gains	Maybe	
35	Workforce	Performance Control	Update the Levels of Service	0.9	Avoided Costs	Yes	Move to OpEx
36			New Performance Review Process	0.9	Avoided Costs	Yes	Covered in SPU Action Plan
37			Set points of responsibility for mission critical business processes	0.6	Productivity & Efficiency Gains	Yes	Move to OpEx
38		Talent Management	Centralize all field work and scheduling around the Planner/Scheduling role	1.9	Productivity & Efficiency Gains	Yes	Move to OpEx
39			Create progression path system	1.6	Avoided Costs	Yes	Covered in SPU Action Plan
40			Negotiation skills for PMs and Contract Managers	0.3	Productivity & Efficiency Gains	Yes	
41			Perform a staff skills and competency study	2.2	Avoided Costs	Yes	Covered in SPU Action Plan
42			Reduce field crew size	9.6	Systemically Constrained	Yes	Move to OpEx
43			Succession Plan	1.2	Avoided Costs	Yes	Covered in SPU Action Plan
44			Entry level staff apprentice training programs	0.9	Productivity & Efficiency Gains	Maybe	
45			Procure new human resources (HR) information system software	3.6	Systemically Constrained	Yes	Covered in SPU Action Plan
				74.7			