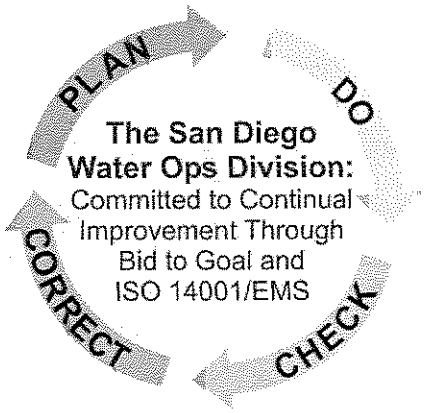
BID TO GOAL[SM] AND ISO 14001 PROJECT



Memorandum of Understanding

Prepared by HDR Engineering, Inc.

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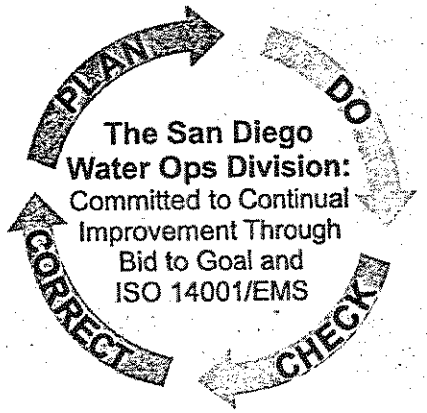
BID TO GOAL[SM] AND ISO 14001 PROJECT



Memorandum of Understanding

DOCUMENT NO. RR-299337
FILED JUN 14 2004
OFFICE OF THE CITY CLERK
SAN DIEGO, CALIFORNIA

CITY OF SAN DIEGO
WATER DEPARTMENT
OPERATIONS DIVISION
BID TO GOAL
MEMORANDUM OF UNDERSTANDING

I. PREAMBLE

This memorandum of understanding (MOU) memorializes an agreement to be effective for a five-year period to commence on July 1, 2004, and to conclude on June 30, 2009, between the City Manager on behalf of the City of San Diego, the Director and the management team of the Water Department, and the employees of the Water Operations Division, here after referred to as the Water Ops Team, as represented by Local 127 of The American Federation of State, County, and Municipal Employees (AFSCME. AFL-CIO), and the San Diego Municipal Employees Association (MEA); hereafter referred to as "the parties." This MOU is subject to the respective ratification processes of the parties, including and culminating in a vote by the City Council of the City of San Diego.

II. RECITALS

WHEREAS, the Water Operations Division of the Water Department is responsible for the operation and maintenance of the San Diego Water System; and

WHEREAS, the City desires to have this system operated and maintained in the most efficient and effective manner possible; while complying with all federal, state, and local laws, rules, and regulations, and while protecting and promoting the health and safety of system employees, ratepayers, consumers and other stakeholders; and

WHEREAS, the efficient and effective operation and maintenance of the system requires unique and specialized skills and certifications together with experience and expertise in new technologies; and

WHEREAS, employees of the Water Ops Team have acquired, refined, and maintained these same skills, certifications, and expertise;

WHEREAS, past optimization efforts in improved efficiencies/effectiveness by the Water Ops Team has led to an estimated $50 million in cost savings since 1995; and

WHEREAS, with the assistance of external consultants, and review by citizen and employee groups, the parties have critically assessed the organization, processes, procedures, practices, budget and staffing of the Water Ops Team;

NOW THEREFORE, the parties agree that the process described in this document, referred to as "Bid to Goal," is the mutually preferred and supported process to assess

and optimize organization, policies, and practices of the Water Ops Team of the Water Department into a more competitive organization.

Therefore, each party mutually agrees to the obligations and requirements as hereafter described.

III. SCOPE AND DEFINITIONS

The scope of the Water Ops Team's Bid to Goal Public Contract Operations Agreement (Agreement) is herein defined as a commitment by the parties to targets and goals related to meeting budgets and performance measures, and identified in this MOU. This scope includes the following facilities and the Division's direct support activities for them:

- **Water Treatment**
  - *A. Alvarado*
  - *B. Miramar*
  - *C. Otay*
- **System Operations**
  - *A. Pumping Stations*
  - *B. Distributions Reservoirs*
  - *C. Pipelines and Valves*
- **Construction**
  - *A. Chollas*
- **Laboratory**
- **Engineering Program**
- **Lakes and Recreation**
  - *A. Barrett*
  - *B. Morena*
  - *C. Sutherland*
  - *D. El Capitan*
  - *E. Upper / Lower Otay*
  - *F. San Vicente*
  - *G. Lake Murray*
  - *H. Miramar Lake*
  - *I. Hodges*
  - *J. Chollas*
- **Safety**
- **Administrative Support**
- **Storm Water/ Watersheds**

Any new facilities and/or activities that have not been accounted for in the "Budget Objectives" used for monitoring division performance and the "Baseline" used for calculating resulting savings shall not be within the scope of Bid to Goal. Such new facilities or activities may be brought within the scope of Bid to Goal through reopened negotiations of this MOU by the parties and any resulting amendments. All facilities and functions within this scope shall hereafter be referred to as "the System."

Bid to Goal is herein defined as an agreement and commitment by the parties to the goals relating to budget and staff efficiencies, as identified in this document, and to preclude any and all efforts to pursue a competitive procurement process as long as the Division meets the stated objectives, during the term of this MOU.

It is understood that the Budget Objectives detailed in this document fall within the competitive range for operating the San Diego municipal water system as determined by an engineering consulting firm nationally recognized for assessing and optimizing municipal water systems. In order to remain in compliance with the bond covenants, operations and maintenance procedures and process modifications embodied in the plan for goal attainment are subject to review by an independent feasibility engineer.

Results of this review may impact proposed modifications, budget objectives and projected savings. Modification of this MOU may result if strategies are not accepted by the City Manager. The Goal identifies a cumulative total of projected Monetary Savings anticipated during the term of this MOU. Monetary Savings are defined as the difference between projected spending under current practices identified as the "Baseline," and projected spending from operations that have been refined and optimized are identified as "Budget Objectives". These terms will be more fully defined in Section IV. "GOAL".

The Budget Objectives of the Goal provide a more specific commitment to the timing and level of savings to be yielded from this program.

The Goal is designed to yield economic benefits as soon as practicable, while maintaining the integrity and soundness of capital investments, infrastructure, and operations; and safeguarding the environment and the public health. In addition, the Goal is designed such that the City can continue to meet its commitments to employees and promote cooperative labor/management relations.

The parties agree that a Bid will be submitted to the City Manager within seven (7) days of the City Council's ratification of this MOU. The Bid will be a detailed plan and commitment to service levels developed and offered by the Labor/Management partnership to meet the Goal. The Bid will also include implementation and interpretive details regarding the policy statements contained in this document. The City Manager will assess the sufficiency of the Bid within 30 days of Bid receipt.

The Bid will be based on the best efforts of the parties to forecast the results of various efficiency related initiatives. Optimal outcomes may provide greater savings than stated in this document. When such Additional Savings occur in a year (the Budget Objective less the in-scope actual expenditures), 50% of this additional savings amount shall be placed in a Water Fund memo account (identified as the Assurance Fund) and may be expended for Water Fund needs including: credits toward future Budget Objectives, technology improvements training and gainsharing with employees. This program will be discussed in a later section of this document.

IV. GOAL

This MOU is a commitment to operating the system effectively, efficiently, and competitively. The Goal reflects a level of competitive performance and cost efficiency developed by external consultants nationally recognized for optimization of municipal water operations. In addition, the Goal has been reviewed and supported by employees

currently operating the System through a series of special employee task forces, performance improvement teams, and committees.

A. Service Levels

All strategies employed to meet the objectives of Bid to Goal will be developed under the premise that primary service levels of core O&M functions must be maintained at current standards, or better. The parties acknowledge that there may be reasonable differences of interpretation regarding service level components and standards. Therefore, the Bid presented to the City Manager subsequent to this MOU for his review and approval will fully detail the level of service in this regard.

B. Budget Objective

The Budget Objective has been established based on an optimization assessment for the System's in-scope operations for Fiscal Year 2003, with annual projections for the term of this MOU. The Budget Objective is the total annual compensation paid to the Water Operations Division to operate, maintain and manage the in-scope activities of the Water Operations Division, for each budget year during the term of this MOU. The Budget Objective includes the in-scope costs of operations, maintenance and management, the pass-through costs, the divisional contingency, and the allowance for inflation. The Budget Objective is the compensation the Water Ops Team will be paid for the services they provide, and shall not be changed, except as provided in this MOU and the EMPLOYEE BID.

In this manner, the Baseline represents projected spending under traditional operations and budgeting practices, while the Budget Objectives represent potential reductions in spending from operations that have been refined and optimized. Monetary Savings projected annually as well as for the entire term of this MOU, represent the difference between the Budget Objectives and the Baseline, as detailed in this document. All Monetary Savings will be returned to the Water Fund. Table 1 entitled Projected Budget Objectives and Savings, presents the Baseline, the Projected Budget Objectives and the resultant Savings, which total $1.20 million during the term of this MOU.

The Budget Objective of the EMPLOYEE BID ties Water Ops performance to the Water Department's Mission and Vision. Water Ops performance and service levels will be measured to document that it is providing the community with safe, reliable, cost-effective, water and outstanding customer service in an environmentally sensitive manner. The performance targets will lead to achieving the goal of becoming a "Best-in-Class" water utility for our customers. Specific initiatives included in the Budget Objective are;

- Environmental Management System certified under ISO 14001 during FY05.
- Effective use of technology
  - Maintenance Management System Implementation
  - System Optimization Implementation
- Full implementation of the Water System Technician (WST) including initial salary increases.

- Fully funding all purchased water costs
- A budgeted two year Pay for Performance Program
- Rigorous performance measurement and tracking in accordance with American Water Works Association (AWWA) national QualServe program.

Table 1

Projected Budget Objectives and Savings

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Baseline	195,406,700	203,023,300	212,798,000	222,887,000	233,572,400
Budget Objective	194,955,000	203,502,200	212,958,000	222,086,200	232,980,100
Savings	451,700	(478,900)	(160,000)	800,800	592,300

The parties acknowledge that the organizational re-engineering necessary to optimize the System will be a significant undertaking. The necessary changes to processes, behaviors, and staffing must be carefully and conscientiously planned and implemented, and when lawfully required, proposed changes must be negotiated with formally recognized employee bargaining representatives.

Therefore, the Monetary Savings projected in the annual Budget Objectives represent a transition period from the current System operations into the proposed fully optimized System operations. When achieved, this schedule will result in performance improvement and savings prior to full optimization, yet maintains System stability and continuity during the transition period. In addition, the transition period maximizes the potential to use attrition and new facilities to affect staffing plans, and minimizes the possibility of employee layoffs.

C. Cost Inflation

The assumption in the projections for inflation is 4 percent; however, the intent of the parties is that actual annual baselines and Budget Objectives will be recalculated with Non-Personnel Expenses (NPE) inflated to the Consumer Price Index (CPI) and Personnel Expenses (PE) Inflated with consideration of negotiated employee salary, fringe benefit, and compensation cost increases applied to the Water Operations Division. Other specific adjustments for costs related to unforeseen circumstances may be made only pursuant to the Administration of Agreement provisions in Section V of this document.

D. Treatment of Additional Savings (Assurance Fund)

Parties agree that 50 percent of Additional Savings as, defined in Section III of this MOU, shall be identified and tracked in a Water Fund memo account, identified as the Assurance Fund, for the purpose of possible Water Fund uses including those listed below. Such additional savings may be contingent upon review of System performance

and other System expenditures, consistent with Bond Covenants, which are out of scope from the defined Budget Objectives. This Assurance Fund memo account is capped at a maximum amount of $5,600,000. Expenditure of this money will follow normal City rules and authorization processes. The potential uses of the Assurance Fund memo account include:

1) Credits toward Budget Objectives in subsequent years if and when necessary to meet annual goals, and/or

2) To purchase otherwise unfunded new technology and/or training to promote the effectiveness and professionalism of System employees, and/or

3) To establish and fund gainsharing and pay for performance programs. The gainsharing parameters and limits shall be developed through the meet and confer process

Expenditure of any funds from the Assurance Fund memo account for the purchase of otherwise unfunded new technology and/or training to promote the effectiveness and professionalism of System employees will require authorization by the Department Director based on recommendations of a labor/management committee.

At the conclusion of the term of this MOU, should monies identified above remain in the Assurance Fund memo account, the remaining memo account balance can continue to be used for the following Water Fund purposes: a) a memo account in a successor agreement, if any; or b) to purchase otherwise unfunded new technology and/or training to promote the effectiveness and professionalism of System employees; or c) Gainsharing in accordance to the Employee Bid document, as authorized by the Department Director based on recommendations of a labor/management committee.

E. Gainsharing

The parties agree that funding in the Assurance Fund memo, if any, will be set aside for an employee Gainsharing and Pay for Performance Programs pursuant to the meet and confer process and the provisions of Section IV.D of this MOU. Beginning in Fiscal Year 2006, funds established for this program would be used for annual cash employee performance incentives. The Gainsharing and Pay for Performance Programs would be developed through the meet and confer process and shall be described in more detail in the Bid.

F. Actual Expenditures

Actual expenditures and encumbrances represent the amount of money spent to operate and maintain the System.

V. ADMINISTRATION OF AGREEMENT

A. Default Thresholds

System spending less a) an amount of no more than two times the unexpended monies in the Assurance Fund memo account and b) any City Manager authorized amount of enhanced System revenues allocated to budget shortfalls, may not exceed Budget Objective spending as adjusted annually pursuant to sections: 1V.C. Cost Inflation; V.B. Budget Performance Monitoring; and V.C. Uncontrollable Events/Changes In Law; by more than a cumulative total of $5.6 million during the term of this MOU. Should the cumulative System spending exceed Budget Objectives, as defined above, by more than $5.6 million, this MOU may be deemed in default.

All annual Budget Objective shortfalls of the System must be repaid in total before a positive balance can be established in the Assurance Fund memo account or before funds can be expended from the Assurance Fund memo account. System spending in excess of Budget Objectives is defined to be a Budget Objective shortfall.

The parties recognize that failure to meet the stated Budget Objectives to the extent of default as defined above may at the City Manager's sole discretion result in a competitive procurement of System operations and maintenance pursuant to and consistent with applicable Council Policy, and applicable regulations and laws.

B. Budget Performance Monitoring

The parties agree that the methods to be used to monitor the System's performance during the term of Bid to Goal shall be typical of the methods used by public agencies in assessing the performance and costs of private contract operators of water treatment facilities. To that end, costs properly charged to the System will be limited to those associated with core operations and maintenance functions of the System, and direct support functions including administration costs associated with employee transitions (i.e. training, job counseling and costs of processing employee transfers). As defined more thoroughly in the Bid document, the costs charged to the System would properly exclude:

- Costs directly associated with Capital Improvement Projects (CIP), exclusive of main replacement program support, which will be in-scope.

- Employee time or System resources, beyond current levels, for activities that are mandated by the City but are not associated with core or direct support functions.

Changes in revenues associated with system operation will not directly impact system performance with respect to the Budget Objective. However, revenue changes resulting from employee innovation and initiative may be discussed on a case-by-case basis with the City Manager's Office. The City Manager may, based upon the review, authorize some or all of the revenue to be allocated to employee gainsharing, new technology, training or other Water Fund uses (including budget shortfalls) in accordance with bond covenants.

At least annually, within 120 days of fiscal year end, the Water Operations Division shall submit a Performance Report to the City Manager with a copy to the Optimization

Program Manager. The Performance Report shall be submitted to the Water Department Director for review within 90 days of fiscal year end. The Performance Report shall include the following:

- A narrative description of how the Budget Objectives were accomplished, both financially and operationally.

- Performance standards - quantitative measures of performance which demonstrate standards have been met or exceeded.

- Explanations for all instances where Budget Objectives and performance standards are not met, and an action plan for correcting the situation in the current year.

The City Auditor and Comptroller shall review the annual Performance Report and issue a report to the City Manager with a copy to the Optimization Program Manager related to the review.

Actual performance monitoring will be more clearly defined in the Bid. It is understood that the Budget Objectives detailed in this MOU shall remain inviolate for the term of this MOU, subject to adjustments only pursuant to the express language of this section and in the subsection titled "Cost Inflation" (IV.C.).

C. Uncontrollable Events/Changes in Law

The Bid to Goal program Budget Objectives have been based on reasonable assumptions of projected costs and savings. However, the parties understand and acknowledge that extraordinary unforeseen events, beyond the reasonable control of System employees and management, may result in costs and/or savings that could significantly affect their ability to meet the stated objectives.

To protect and promote the objectives of Bid to Goal, the parties agree that cost impacts associated with extraordinary and unforeseen events may lead to adjustments of the Budget Objectives for purposes of assessing System performance in this program. Such events may include but are not limited to:

- Changes in major NPE prices compared to the Consumer Price Index adjustments described in section IV.C.

- Mandates for changes in service levels.

- Mandated changes in any policies affecting staffing or work procedures.

- Changes in water flow volumes from volumes projected in the system financing plans used for establishing the Budget Objective.

- Significant changes in raw water characteristics, or mandated changes in the treated water requirements.

- Capital breakdowns of major equipment or assets.
- Catastrophic Acts of Nature, terrorism or war.

Any other events beyond the reasonable control of System employees and management, including changes in law, that have a material effect upon costs or the ability of System employees to perform to the terms of this agreement and/or corollary service agreements may have the effect of reopening negotiations to make appropriate adjustments to Budget Objectives.

The Director of the Water Department shall be responsible for investigating uncontrollable events/changes in law to determine materiality, as described above. Upon such findings, the Director, shall issue notice to the parties of this MOU and the Optimization Program Manager stating the cost and consequence of the event. Depending on the nature of the event and findings, the associated costs may either be: a) removed from the total costs charged against the System for assessing performance upon written recommendation of the Optimization Program Manager and subsequent approval by the City Manager's Office or b) the parties of this MOU shall reconvene to renegotiate the Budget Objectives in light of the event. In the latter case, only the Budget Objectives of this MOU related to the specific event shall be adjusted, all other terms and conditions shall remain unchanged. The specific process for submitting and approving adjustments to the Bid and/or Budget Objective shall be described in the Employee Bid Document.

D. Labor & Management Cooperation

The parties to this MOU acknowledge that cooperative labor/management relations, as typified by the relationship established in developing the Bid to Goal program and this MOU, are critical to meeting the competitive challenge and objectives detailed in this document. The parties commit to maintaining the momentum, energy, and good will of this effort.

To that end, the Water Operations Division, AFSCME Local 127, MEA, and the Optimization Program will establish a monthly Labor/Management Committee to govern the Assurance Fund; monitor progress and make recommendations on potential fund usages; identify issues and barriers to success; and to otherwise maintain a mutual commitment to open communications and consensus. The committee shall consist of eight (8) employees represented by AFSCME Local 127, as appointed by the President or his/her designee, eight (8) employees represented by MEA, as appointed by the President or his/her designee, the Deputy Director of Water Operations, and up to eight (8) appointees of the Deputy Director and subject to approval by the Water Department Director.

E. Relationship with Labor Contracts

It is the intent of the parties that this MOU be interpreted in harmony and compliance with the comprehensive labor contracts between the City of San Diego and authorized

employee organizations representing Water Operations Division employees. All rights and benefits of the parties under existing and future labor contracts are preserved with the specific exception of any provisions contained in Article 50 of the current Memorandum of Understanding between the City of San Diego and AFSCME Local 127 relating to the contracting out of City services that would conflict with the provisions of this MOU.

F. Dispute Resolution:

Any disputes that arise (except for the audits of the Performance Report conducted by the Auditor and Comptroller's Office which are not appealable) from a charge of a violation or misinterpretation of this MOU shall be resolved through the applicable use of established processes within labor agreements in effect at the time of the dispute.

G. Applicable Law

In the event that any condition, covenant, or provision of this MOU is held to be invalid or void by any court of competent jurisdiction, or is deemed to be contrary to the law or any covenant or condition or provision of any contract to which the City is a party, the same shall be deemed severable from the remainder of this MOU and in no way shall affect any other covenant, condition, or provision. If any covenant, condition, or provision of this MOU is deemed to be invalid due to scope or breadth, such covenant, condition, or provision shall be deemed valid to the extent the scope or breadth is permitted by law.

H. Impacts on Staff

The parties agree that a top priority in the Bid to Goal program is to optimize system operations and in the process of doing so to protect the employment rights of all affected employees. To that end, the parties agree that every reasonable effort will be made to effect staffing reductions through attrition.

In addition, with the prospect of new treatment processes and increased treatment capacity coming on line during the term of this MOU, the staff reduction program staffing impacts are premised on bridging today's pool of highly trained and certified employees with tomorrow's staffing demands. The parties recognize that this approach not only best protects employees, but addresses business needs.

I. Successor Agreement

The parties recognize that insofar as it is in the public and the parties mutual interest, and that insofar that the parties will have met the terms and conditions of this and corollary service agreements, that it will be the option of the parties to negotiate a new agreement or extension of the existing agreement prior to the conclusion of the term of this MOU.

This MOU shall be effective only after the ratification of all parties listed below as evidenced by their respective signatures. This MOU will have no force or final effect without City Council approval.

IN WITNESS WHEREOF, the undersigned agree to submit this Memorandum of Understanding to the appropriate bodies for approval and final ratification.

Date: May 5, 2004

LOCAL 127, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, AFL-CIO

Joan Raymond, President

SAN DIEGO MUNICIPAL EMPLOYEES ASSOCIATION

Judie Italiano, President

CITY OF SAN DIEGO

P. Lamont Ewell, City Manager

Richard Mendes, Utilities Manager

Larry Gardner, Director
Water Department

Mark Stone, Deputy Director
Water Operations Division

Kent Floro, Asst. Deputy Director
Water Operations Division

FOR

Brook Doty, Program Manager
Optimization Program

R-299337

(R-2004-1338)

RESOLUTION NUMBER R- 299337

ADOPTED ON JUN 14 2004

WHEREAS, in April of 2002, as part of the City Council's action on the Water Rate Case, the Council directed the Water Department to pursue a Bid to Goal effort; and

WHEREAS, over the past two years, the Water Department has pursued this direction by working with a nationally-recognized independent engineering consultant, employee-based Performance Improvement Teams, and representatives of MEA and AFSCME Local 127; and

WHEREAS, this two-year effort has culminated in presentation of a Memorandum of Understanding for a five-year Bid to Goal Program [Bid to Goal MOU], modeled after the highly successful Metropolitan Wastewater Department program; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the Bid to Goal MOU is approved and ratified and the City Manager and his duly designated representatives are authorized to execute the Bid to Goal MOU, a copy of which is on file in the office of the City Clerk as Document No. RR- 299337.

BE IT FURTHER RESOLVED, that the City Manager is authorized to accept and approve a responsible Bid submitted in accordance with the terms of the Bid to Goal MOU.

APPROVED: CASEY GWINN, City Attorney

By Lori W. Girard
Lori W. Girard
Deputy City Attorney

LWG:lc
06/02/04
Or.Dept: Water
R-2004-1338

Passed and adopted by the Council of San Diego
on June 14, 2004, by the following vote:

YEAS: PETERS, ZUCCHET, ATKINS, LEWIS, MAIENSCHEIN, FRYE, MADAFFER, INZUNZA, AND MAYOR MURPHY.

NAYS: NONE.

NOT PRESENT: NONE.

AUTHENTICATED BY:

DICK MURPHY

Mayor of The City of San Diego, California

CHARLES G. ABDELNOUR

City Clerk of The City of San Diego, California

(Seal)

By: GIL SANCHEZ, Deputy

I HEREBY CERTIFY that the above and foregoing is a full, true and correct copy of RESOLUTION NO. R- 299337, passed and adopted by the Council of The City of San Diego, California on June 14, 2004.

CHARLES G. ABDELNOUR

City Clerk of The City of San Diego, California

(SEAL)

By: _____, Deputy