

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Subject: IBA Review of Metropolitan Wastewater Department BPR

OVERVIEW

The Metropolitan Wastewater Department (MWWD) commenced Business Process Reengineering in June 2006 as part of the Mayor's initiative to review nearly every City department in order to provide services more efficiently and effectively. MWWD incorporated Business Process Reengineering (BPR) into its existing Bid-to-Goal program, and is the largest department to have undergone BPR to date. Completed in December 2006, the MWWD BPR has completed Meet and Confer, and is implemented in the Mayor's FY 2008 Budget.

Overall, the MWWD BPR resulted in the reduction of 158.8 FTE positions and approximately \$20 million in savings. The current action before the City Council is to approve the MWWD BPR and the recommended modifications to existing business practices and operations contained therein. This report first explains the nexus between BPR and Bid-to-Goal and why it made sense to conduct a hybrid process, then examines in greater detail the results of the BPR/Bid-to-Goal process, and finally, discusses the cost savings and potential rate case implications of the BPR.

FISCAL/POLICY DISCUSSION

BPR vs. Bid-to-Goal

The MWWD BPR is unique in that it incorporates elements of the standard BPR process into the Bid-to-Goal program. For more than 10 years MWWD has implemented Bid-to-Goal programs in order to incorporate aspects of private sector utility operations to the public sector. The purpose of Bid-to-Goal is essentially to optimize the governmental organization by reengineering business practices and operations in order to attain benchmark service levels, and to then provide those service levels in a manner that is competitive with private market providers.

The Bid-to-Goal process generally involves developing a statement of work that defines a discreet scope of work or service levels that is to be bid for. A competitive market analysis is then performed, and a private market proposal is estimated to establish the mark against which public employees will compete. The private market proposal is designed to approximate the cost at which a private utility provider could perform the services defined in the statement of work. The next step is for the employees of the public utility to prepare an employee bid in an attempt to match the private market proposal. This involves assessing the organization in order to streamline operations and find efficiencies. When the employee bid is developed, the utility is said to be at its most efficient organization, or MEO. Finally, a Public Contract Operations Agreement is entered into, whereby public employees essentially commit to providing the defined statement of work at a specific cost level that is competitive with private organizations.

In this way, the Mayor's Business Process Reengineering initiative is a natural fit with MWWD's Bid-to-Goal program in that it also aims to systematically identify and implement efficiencies by assessing and modifying existing business practices and operations. In this instance, MWWD simply used the BPR process as the mechanism to identify the majority of efficiencies and cost savings that support the eventual employee bid.

One of the inherent benefits of the Bid-to-Goal program is that it identifies certain benchmark or target service levels that the Department commits to achieve and maintain. Some of these benchmarks are Departmental in nature; others are specific to individual divisions. For instance, Departmental benchmarks for MWWD include maintaining a maximum number of sanitary sewer overflows per 100 miles of main, achieving a minimum level of contaminant removal at the treatment plants, and retaining ISO 140001 Certifications in certain divisions. Divisional benchmarks are still in development, and will be presented when MWWD returns to Council for approval of the Public Contract Operations Agreement, anticipated for June 2007.

Results of BPR/Bid-to-Goal

As mentioned in the overview, MWWD's BPR resulted in a net reduction of 158.8 FTE positions. The process identified a total of 189.3 FTE for elimination, which was offset by 30.5 FTE that were reclassified to positions that supported the Department's MEO. While the MWWD BPR Report states that total reductions were identified at 188.3, it was subsequently realized that an additional 1.0 FTE should have been included. It should also be noted that of the total positions identified for reduction, 115.3 were vacant.

The Mayor's FY 2008 Proposed Budget reflects a net BPR reduction of 157.5 FTE. However, it was determined that 35.0 of the eliminated positions were still needed for a six month period to support operations as BPR reductions are implemented, so an additional 17.5 FTE were added back in to the FY 2008 Budget which will be eliminated in the FY 2009. The BPR reductions were further offset by 6.0 FTE that were added to

the budget to provide support and oversight to the Independent Rate Oversight Committee (IROC), Dedicated Reserve from Efficiencies and Savings (DRES), Service Level Agreements and ERP implementation. The table below shows total staffing adjustments for FY 2008.

| | | |
|--------------------------------|-----------------|---|
| FY07 Budgeted FTE | 1,051.74 | |
| Budgeted BPR Reductions | (157.50) | } |
| Interim Support | 17.50 | |
| Oversight Support | 6.00 | |
| FY08 Proposed | 917.74 | |
| Net Reduction | (134.00) | |
| May Revise - BPR Reduction | (0.30) | } |
| May Revise - BPR Reduction | (1.00) | |
| Revised Net Reduction | (135.30) | |
| Total Net BPR Reduction | (158.80) | ← |

As this table reflects, the Proposed Budget slightly underreported the number of FTE reductions due to BPR, which was corrected in the May Revise to arrive at the total BPR reduction of 158.8 FTE. It should be noted that of this total, 144.3 FTE are directly related to the MWWD BPR, while 14.5 FTE are being reduced or transferred to other departments pursuant to the BPRs for Engineering & Capital Projects, Human Resources, Purchasing & Contracts, and Information Technology.

The table below shows the BPR reductions implemented in the FY 2008 Budget by division. These numbers include the 17.5 FTE that were temporarily added back in to the budget to support operations during the transition period.

| <u>Division</u> | <u>BPR</u> |
|------------------------------------|-----------------|
| Wastewater Treatment & Disposal | (42.00) |
| Wastewater Collection | (86.00) |
| Enviro. Monitoring & Tech Services | (14.00) |
| CIP/Muni Construction | (3.50) |
| Administration | (13.30) |
| TOTAL | (158.80) |

The total net reductions in FTE listed above are the result of numerous factors, including the reengineering of business practices and operations resulting from BPR process

mapping, implementation of new technology and business practice standards, changes in the Department's overall mission, and additional management decisions implemented in order to achieve the MEO. Due to the size and complexity of the Metropolitan Wastewater Department, it is not practical to itemize each recommended BPR/Bid-to-Goal modification. There are hundreds of minor changes to business practices and operations, that when aggregated, result in significant numbers. However, we would like to illustrate a few examples of some of the more prominent changes that will impact the Department.

1. Chase Truck Use Reduction

The Department has determined that not every cleaning crew requires a chase truck. There are currently 27 chase trucks in use, which provide physical safety for cleaning crews by providing a barrier between cleaning crews and traffic. The Department has determined that most streets do not require this additional safety feature, and can reduce the number of chase trucks to 10, for an estimated annual savings of \$500,000.

2. Consolidation of the Information/Operational Support and Contracts/Services Division

These Divisions can be consolidated into a single Administrative Services Division, eliminating and/or streamlining redundant functions and reducing management. This consolidation of divisions results in the reduction of 14.0 FTE including 2.0 management positions, for an estimated savings of \$1.2 million.

3. Cleaning Program Process Changes

The Department is proposing to implement various changes to its pipe cleaning program, such as the procurement of newer and more effective cleaning tools that will allow certain pipes to be cleaned less frequently; providing consultant training to employees to reduce the number of improperly cleaned pipes; and shifting to sustaining cleaning levels now that all 3,000 miles of City pipe has been cleaned. These changes will result in the reduction of 38.0 FTE (22.0 are anticipated to remain for 6 months to facilitate the transition), for an estimated savings of \$1.1 million in personnel expense. Heavy vehicle inventories may also be reduced as a result of these changes.

4. Remote Operation of Pump Stations

This initiative would adjust staffing at certain pump stations and other facilities by implementing a remote operating and monitoring system. Pump stations typically have a very low flow during nighttime operation. As such, it has been determined that certain pump stations and other facilities can be effectively operated from a remote location during the night, while staff will remain on call to respond to emergencies. Orange County, Seattle, Sacramento and Portland already employ

remote operation at night for similar sized pump stations. This initiative would result in the elimination of 33.0 FTE, for an estimated savings of \$3.5 million.

These examples illustrate the different types of initiatives and modifications to business practices that resulted from the BPR/Bid-to-Goal process. While many of these different components might be regarded as technology improvements or workload reductions, the BPR/Bid-to-Goal process has allowed the entire department to come together and examine all factors concurrently in order to determine how to most efficiently and effectively provide services as an organization. It is evident that a tremendous amount of work went in to this process, and the Metropolitan Wastewater Department should be commended for their efforts.

BPR Savings/Rate Case Impacts

The BPR/Bid-to-Goal modifications implemented in the FY 2008 Budget result in savings of approximately \$20 million. However, these savings have largely been offset by other cost increases, a significant portion of which is outside the Department's control. Increases in salary and fringe, pension contributions, OPEB, insurance, General Government Services Billing and energy costs have resulted in a significant increase in non-discretionary expenditures, largely offsetting the cost savings from the BPR. Still, it is estimated that approximately \$110 million in cost avoidance could be achieved over the next five years as MWWD meets its MEO objectives.

The sewer rate increases approved by the City Council in February 2007 factored in anticipated savings due to BPR/Bid-to-Goal. Likewise, several of the cost increase components were factored in as well, such as FY08 salary and wage increases. Other cost increases were higher than anticipated, however, and will need to be monitored to determine if there will be an impact to the rate case.

CONCLUSION

The Metropolitan Wastewater Department has undergone a rigorous process that merged Business Process Reengineering with the Department's existing Bid-to-Goal program. This hybrid process has allowed the Department to assess how services are provided from an organizational perspective, and has resulted in the net reduction of 158.8 FTE and savings of approximately \$20 million in FY 2008. The BPR/Bid-to-Goal reflects the Department's most efficient organization, and is the basis for the employee bid that will be proposed in the Public Contracts Operations Agreement, which is anticipated to be

brought forward in June 2007. The considerable time and effort dedicated by MWWD is evident in the quality of this process and its results, and the IBA strongly supports approval of the MWWD BPR.

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