

DATE ISSUED: April 11, 2001

REPORT NO. 01-069

ATTENTION: Natural Resources and Culture Committee
Agenda of April 18, 2001

SUBJECT: Public Contract Operations (Bid to Goal) Agreement for the Wastewater
Collection Division of the Metropolitan Wastewater Department

REFERENCE: Manager's Report No. 98-33

SUMMARY

Issue - Shall Council ratify the "Bid to Goal" Memorandum of Understanding (MOU) with the Metropolitan Wastewater Department (MWWD) Wastewater Collection Division (WVC) Labor / Management Partnership, and authorize the City Manager to approve and accept a responsible bid by the Partnership?

Manager's Recommendation - Ratify the MOU and authorize the City Manager to approve and accept a responsible MWWD WVC Labor / Management Partnership bid.

Other Recommendations:

(1) - The City's Competition Committee and Competition Advisory Panel received presentations and reviewed results at key points over the two year competitive assessment of WVC and attendant development of the WVC Public Contract Operations (Bid to Goal) Agreement. This joint oversight group supports the City Manager's Recommendation.

(2) - As part of the team that developed the MOU, both the American Federation of State, County, and Municipal Employees - Local 127, and the San Diego Municipal Employees Association support the City Manager's Recommendation.

Fiscal Impact - Implementation of the WVC Public Contract Operations Agreement will stabilize operations and maintenance budgets associated with the City's wastewater conveyance infrastructure at a level indicated to be competitive in the current marketplace. Further, incentives will be put in place to continuously improve effectiveness and efficiency for the benefit of employees and ratepayers.

BACKGROUND

The purpose of this report is to convey the basic findings of the two year competitive assessment

of the MWWD Wastewater Collection Division (**WWC**) and to obtain authorization to proceed with a Public Contract Operations (Bid-to-Goal) Agreement modeled on the successfully piloted program in the MWWD Operations and Maintenance Division (**O&M**).

In 1998, City Council authorized a pilot Public Contract Operations (Bid to Goal) Agreement with the MWWD **O&M** Labor / Management Partnership in connection with the City's **wastewater treatment facilities**. This pioneering agreement was developed collaboratively with the division's labor organizations and the City Manager's Office. It combined the most beneficial features of the private and public sectors, including the following:

public sector features -

Retains public control of valuable infrastructure funded by public dollars

Avoids for-profit conflict with public health and safety services

Retains budget savings (as opposed to privatized Contract Operations in which productivity gains are generally retained by the corporate service provider in the form of profit)

Retains public sector financing advantages such as preferred borrowing rates and no requirement for revenues to cover tax liabilities and profits

private sector features -

Utilizes competitive budgets derived via externally developed benchmarks (like mock bids) reflecting best industry practices

Utilizes formal contract-like agreements to provide mutual accountability and specificity with regard to competitive budgets, term, scope and levels of service, performance reporting and monitoring, circumstances and consequences of default, etc.

Incorporates performance incentive programs that reward organizational productivity through workforce gainsharing-type programs

The major aim of this strategy and structure was to implement and sustain productivity optimization measures determined by independent assessment and employee involvement. A mock competitive bid by an industry expert consultant during the related organizational assessment process had indicated that operations and maintenance of the wastewater treatment facilities could be performed by the private sector for about 18% below existing budgets (amounting to \$77 million in savings over the six year term of the agreement). The O&M Bid-to-Goal Agreement incorporated this competitive level as its budget objective, and also put in place an employee incentive system to reward savings beyond this budget objective. Through three years of this agreement, all effectiveness goals have been met and cumulative savings of over \$50 million (when compared to previous projections) have been realized. These savings are well ahead of the six year 18% budget reduction goal. The methodology and structure of this Bid to Goal optimization strategy have been received positively in numerous professional conferences and are being considered for implementation in various forms across the country.

The MWWD **WWC** Division operates and maintains the City's extensive **wastewater conveyance (or collection) system**, consisting of nearly 3,000 miles of pipeline and over 80 pumping stations. In 1999, WWC began a two year assessment, benchmarking and optimization study as part of the City Optimization Program.

DISCUSSION

The WWC assessment and optimization study was conducted by two consultants with separate but complementary responsibilities. The “Benchmarking” consultant reported directly to the City Optimization Program Manager and was responsible for a detailed benchmarking study and a mock bid to gauge the private sector competitive budget level for this operation. The “Optimization” consultant was deployed to work more directly with the workforce to determine best industry practices, perform an independent operational assessment, and integrate all information from the workforce and from both consultant efforts into an Optimization Plan.

As opposed to the 1998 experience in assessing the O&M Division budgets for the treatment plants, the WWC Division mock bid indicated that the operating and maintenance budget for the conveyance system is in the competitive range. However, both the mock bid analysis and the optimization study indicated or recommended a number of measures to better utilize resources and continuously move toward best industry practices. Additionally, a related and special interest tasking involved consultant development of viable targets for Sanitary Sewer Overflow (SSO) reductions as primary indicators of desired service levels for policy makers, employees and ratepayers. These targeted reductions are intended to protect the environment and support the Mayor’s goal of reducing beach postings and closures.

Utilizing the successful O&M model as a basis, a six year WWC Public Contract Operations (Bid-to-Goal) Memorandum of Understanding (MOU) has been crafted (draft attached) as the appropriate vehicle to track and manage the results of the WWC optimization effort. This MOU (1) provides for the formal formation of an MWWDC WWC Labor / Management Partnership, (2) specifies multi-year competitive budgets and SSO reduction targets reflective of the independent benchmarking and assessment studies, and (3) establishes an accountability framework that includes requirements for performance monitoring and reporting, an employee incentive program to motivate performance levels better than specified goals and targets, and default thresholds as consequences of possible performance shortfalls. A follow-on bid document submitted by the WWC Labor / Management Partnership will provide supporting interpretive and administrative detail as required by the City Manager to complete the agreement.

One notable and innovative feature of this agreement is the acknowledgment of the importance of the funding and execution of the associated Capital Improvement Program (in concert with optimized operations and maintenance practices) to achieving the goals and targets associated with overall asset management of this vital City infrastructure. In that light, a key effort has been initiated to develop a performance pay program for City employees not strictly covered by the WWC assessment, but supportive of the desired optimization goals and targets. This program is intended to foster Citywide teamwork, cross-functional cooperation and focused delivery of services aimed at increasing the probability of achieving WWC goals and targets.

In summary, ratification of the WWC Public Contract Operations (Bid-to-Goal) MOU and authorization of the City Manager to accept and approve the attendant bid will provide the mechanisms to implement terms and agreements designed to (1) assure competitive budget goals and viable SSO reduction targets, and (2) facilitate the establishment of a WWC Labor / Management Partnership committed and equipped to meet the goals and targets. This strategy

and structure combines the best aspects of the public and private sectors and is most appropriate for a large, complex operation concerned with public health and safety.

ALTERNATIVE

1. Do not ratify the MOU or authorize the City Manager to accept a responsible bid. This is not recommended because the MOU is consistent with the objectives of the City Optimization Program and has been developed with input from the City Optimization Program Office, the Metropolitan Wastewater Department, the Municipal Employees Association and Local 127 of the American Federation of State, County and Municipal Employees.

Respectfully submitted, F. D. Schlesinger Director Metropolitan Wastewater Department		Approved: George Loveland
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SCHLESINGER/JNH

Attachment: 1. **DRAFT** MWWD WWC Public Contract Operations (Bid-to-Goal) MOU