



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 19, 2006 REPORT NO.: 06-099

ATTENTION: Natural Resources and Culture Committee Agenda of July 26, 2006

SUBJECT: Fiscal Year 2007 Implementation of Bid to Goal in the Water
Department Customer Support Division.

REFERENCES: (1) City of San Diego Manager's Report No. 02-008, January 9, 2002
(2) City of San Diego Manager's Report No. 03-058, March 28, 2003
(3) City of San Diego Manager's Report No. 04-173, July 28, 2004
(4) City of San Diego Manager's Report No. 05-212, October 24, 2005
(5) Executive Summary to NR&C, Agenda of May 17, 2006, Item #3

REQUESTED ACTION: Approve the Fiscal Year 2007 implementation of Bid to Goal in the Water Department Customer Support Division and recommend the ratification by the full City Council of the related Memorandum of Understanding.

STAFF RECOMMENDATION: Approve the request.

SUMMARY:

The purpose of this report is to convey the findings of a recently completed competitive review and optimization analysis of Customer Support Division activities and to obtain authorization to proceed with Fiscal Year 2007 implementation of Bid to Goal in the Customer Support Division (CS).

Approval of Bid to Goal implementation in CS is requested based on the findings of an independent competitive assessment, which included industry-related benchmarking comparisons, as well as internal efficiency reviews completed by an industry expert consultant. These reviews demonstrated that while CS operations and staffing levels are competitive with other public and private sector organizations, there was an opportunity to strategize and implement a process to sustain productivity enhancements and organizational optimization through Bid to Goal. Bid to Goal is one of the initiatives currently employed by the City to optimize business operations through the establishment of aggressive budgetary objectives, improved organizational communication, meaningful employee empowerment and accountability, cross-functional cooperation, and the fast and efficient implementation of technology and other improvements.

Approval of the requested action will continue the Department's roll-out of the Bid to Goal (BTG) program through ratification of the related MOU. In June 2004, the Water Department (Water) first received approval to implement BTG in the Operations Division, effective Fiscal Years 2005-2010. Approval to implement in the Customer

Support Division would increase the Department's overall BTG participation to 80 percent of the Department's employees.

Background

The City currently has Bid to Goal agreements in place in the Metropolitan Wastewater Department (MWW) Operations and Maintenance Division, MWW Wastewater Collections Division and the Water Department Operations Division. These agreements were the result of both a competitive assessment of activities and operations within the respective organizations and the development of strategies for improving and sustaining long-term organizational efficiencies. Customer Support modeled its efficiency review and resultant Bid to Goal initiative after these successfully implemented programs. In addition, implementation of Bid to Goal is consistent with past City Council direction to systematically assess and continually improve Water Department operations, and is consistent with the Department's Mission and Vision established in the Strategic Business Plan.

Program Scope

Customer Support (CS) is responsible for the customer service operations of the Water Department. This includes not only management of billing and account operations for both Water and MWW, but also includes field services and investigations operations, metering services, water resources (water conservation) management and Department-wide information systems (IS) responsibilities. Approximately 209 employees in five of the six CS Sections have been included within the scope of the efficiency review and proposed Bid to Goal program. The Division's Information Systems Section was not included due to its Department-wide support functions. In addition, a City-wide review of all Information System organizations is currently underway and will include a review of the Department's IS activities.

The following activities and the Division's direct support of these activities are within scope of the program:

- **Customer Services-Office**
 - Section Management
 - Clerical Support
 - Exception Billing
 - Collections / Overdue Accounts
 - Customer Information
 - Water Repair
 - Payment Processing
- **Division Administration**
 - Division Management
 - Public Relations
- **Field Services and Investigations**
 - Section Administration
 - Code Compliance

- Meter Reading
- Sewer Classification
- Service Restoration / Turn-Off
- Field Investigations
- **Meter Services**
 - Section Management
 - Commercial Meters
 - Domestic Meters
 - Recycled Water Construction
 - Recycled Water Operations and Maintenance
 - Fire Hydrant Metering
 - Backflow Maintenance
 - Cross-Connection
 - Planning / Scheduling Program
- **Water Resources Management**
 - Section Management
 - Ultra-Low Flush Toilet Voucher Program
 - Field Investigations
 - Retrofit Upon Resale Ordinance
 - Residential Water Survey Program
 - Public Information, Education, and Outreach
 - Clotheswasher Voucher Program
 - Program Development
 - Commercial Landscape Survey Program

The Competitive Assessment Report

The overall objective of the Bid to Goal process is to ensure that ratepayers enjoy the full benefit of services that are delivered at a competitive price. In order to determine that price without requesting competitive bids from the private sector, it was necessary to establish a competitive cost level for the services under study. This required a detailed analysis and comparison of the organization’s operations, costs and staffing levels. To accomplish this review in an expeditious, efficient, and objective manner, CS procured the services of HDR Engineering, Inc. (HDR), which had also provided consulting services for the review, development and implementation of the MWWD and Water Operations BTG programs.

In HDR’s Competitive Assessment review, CS operations, historical expenditures and staffing were evaluated against actual bids submitted by government employees and two private organizations in the managed competition process for the City of New Orleans Sewerage and Water Board (S&WB NO), which included services comparable to those provided by the Customer Support Division. The competition process, one of the largest in United States history, covered the following services:

- Meter reading, billing, collection, and other customer services
- Management, operations, and maintenance of the water system.
- Management, operations, and maintenance of the sanitary sewer system.
- Provision of certain capital repairs and replacements.

Three competitive bids were received in response to the Request for Proposals process, one from the employees and two from large international contract operations and maintenance (O&M) firms specializing in water and wastewater system contract operations. The two private firms’ guaranteed their performance through bonding and letters of credit and submitted proposals that applied their best national and international resources to the project. While the contract was not actually awarded, all three bidders put forth their best proposal assuming the successful bidder would be awarded the contract and would be required to fulfill the all stipulated service requirements. The S&WB NO proposal submittals provide a meaningful basis upon which to benchmark and compare the costs for similar customer support services within the San Diego Water Department.

The table below presents the results of the comparison between the CS Fiscal Year 2006 budget and the bids from the New Orleans Managed Competition.¹

**Table 1
Private Sector Bid Comparison - Costs**

	Employee Bid	Bidder A	Bidder B	San Diego
Actual Bid/Budget	\$14,707,201	\$16,309,505	\$11,135,410	\$30,974,348
Adjusted Bid/Budget	\$18,775,848	\$20,820,848	\$14,215,556	\$25,916,260
Bid/Budget per Account	\$128.66	\$142.67	\$97.41	\$96.97

The above figures reflect actual costs of the Customer Support services as compared to actual submittals received in the New Orleans managed competition process. While the overall dollars for comparable operations is higher in Customer Support, when adjusted for the number of accounts (145,934 for New Orleans versus 267,263 for the City), the CS Fiscal Year 2006 overall budget per account is found to be competitive with the low bidder submittal.

The data from the New Orleans managed competition was also used to compare relative staffing levels. Table 2 presents the number of Full Time Equivalents (FTE) per 1,000 accounts for the New Orleans bidders who provided staffing plans, and for CS based on the Fiscal Year 2006 organization chart.

**Table 2
Private Sector Bid Comparison - Staffing**

	Employee Bid	Bidder A	San Diego
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¹ Additional information regarding the New Orleans bidding process and adjustments necessary to make equivalent comparisons are included in the attached Customer Support Competitive Assessment Report.

Actual FTEs Bid/Budget	139	129	227
Adjusted FTEs Bid/Budget	139	129	209
Bid/Budget – FTEs per 1,000 Accounts	0.952	0.884	0.834

Table 2 demonstrates that the Fiscal Year 2006 overall staffing levels for CS are also competitive.

In addition to comparing CS performance versus actual managed competition submittals, HDR assessed CS performance through a review of available benchmarks and industry ‘best practices.’ The benchmark comparisons were positive. For example, in the American Waterworks Association’s annual benchmarking program (QualServe), the total CS costs for providing customer support services are within the best performing 25 percent of all 186 combined water and wastewater utilities participating in the benchmark. The analysis of CS operations also indicated that CS already employs many industry-wide ‘best practices.’ HDR recommendations in regard to expanding the use of best practices are further detailed in the Competitive Assessment Report.

The Competitive Level

Based on the review of CS operations and benchmark comparisons, HDR developed a Competitive Level for each CS activity. The competitive level is the cost that the consultant estimates would be derived through a competitive bidding process for the level of services analyzed. The competitive level in Table 3 was developed through independent analyses of the costs for each Section within CS and was used in developing the cost goal for each Section reflected in the proposed BTG Employee Bid.

**Table 3
Customer Support Division – Fiscal Year 2006 Budget and Competitive Level**

SECTION	Appropriation FY 2006	Competitive Level	Percent Reduction	Cost Difference
Division Administration	\$1,731,451	\$1,648,800	4.8%	\$82,700
Water Resources Management*	\$2,929,098	\$2,822,100	3.7%	\$107,000
Customer Services Office	\$6,586,051	\$6,195,800	5.9%	\$390,300
Field Services & Investigations	\$3,545,612	\$3,643,900	-2.8%	(\$98,300)
Meter Services	\$7,589,052	\$7,660,600	-0.9%	(\$71,500)
TOTAL	\$22,381,264	\$21,974,200	1.8%	\$410,100

*Adjusted for out of scope expenditures, approximately \$100,000.

Table 3 shows that the competitive level for CS is 1.8 percent less than the Fiscal Year 2006 Budget.

As demonstrated above, costs and staffing levels in CS are competitive, though best practice agencies continue to look for ways to optimize their staff to meet changing trends in workload and improve efficiency and productivity. Like such organizations, CS is committed to continuing to contain costs, provide competitive services, and enhance customer service through continued implementation of best management practices and utilizing the Bid to Goal strategy.

Bid to Goal Strategy

The Bid to Goal strategy is nationally recognized for optimizing public sector organizations. Pioneered in San Diego, BTG has received awards from a number of organizations, including the San Diego County Taxpayer's Association, the International City/County Managers Association and the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government. BTG was developed in San Diego by MWWD in collaboration with the City Optimization Program, the Municipal Employees Association (MEA), and the American Federation of State, County, and Municipal Employees, Local 127.

BTG optimizes public sector operations by combining the most beneficial features of the public and private sectors. For example, BTG is based on public-sector ownership over valuable infrastructure (the recycled water system, pipelines and metering equipment in the case of Water). Public ownership assures that budgetary savings are retained for public use rather than applied to profits retained by a corporate service provider. Similarly, BTG incorporates private sector advantages such as competitive multi-year budgets based on independently developed benchmarks and service accountability through the development of a contract (the Employee Bid) that specifies service levels and cost expectations.

BTG agreements are endorsed by the City and labor organizations. Program results, savings and performance metrics are independently verified and audited.

Since inception in 1998, BTG is estimated to have yielded in excess of \$159 million in savings to San Diego utility ratepayers while simultaneously funding employee incentive programs and workplace enhancements such as training and workplace safety equipment. In terms of fiscal impact, BTG is the most successful initiative to date resulting from City driven optimization review programs (Manager's Report 05-212).

Labor-Management Partnership

In order for BTG to be successful, a partnership between the City and Water Department Management, CS employees and their labor representatives was formed to protect the interest of the City while encouraging employees to put forth their best effort in improving the organization's operations. This partnership resulted in the formation of ad hoc groups of employees, supervisor and CS managers who work together in developing, reviewing and approving all components of the competitive assessment and proposed Bid to Goal programs. These ad hoc groups included the Performance Improvement Teams (PITs) whose main tasks were the review of findings and recommendations in the Competitive Assessment Report, as well as the effort to analyze their Sections' work-flow activities and recommend operational improvements for consideration and review of the CS Management Team.

The Planning Steering Committee (PSC) was also formed to develop, review and approve each component of BTG. The Committee facilitated the flow of communication to and from employees from throughout the Division, helped ensure that information was accurately understood and appropriately represented to all stakeholders, as well promoted efforts to prepare CS employees for the program's expected outcomes. The Committee

was comprised of CS Section Heads from each activity group participating in the program, labor union representatives from MEA and AFSCME, Local 127, a representative from the City's former Optimization Program, a representative from the Water Department's Safety program and one from Human Resources, the Customer Support Deputy Director, the Assistant Deputy Director and the Bid to Goal Program Manager.

The PSC later evolved into the Action Steering Committee and expanded to include the Chair of each Performance Improvement Team (PIT) to ensure employee input and review continued to be considered as the competitive level and all the components of Bid to Goal were developed and finalized.

The MOU and Incentive Programs

Implementation of Customer Support's Bid to Goal requires a formal agreement and commitment to achieving the budgetary and staffing efficiencies identified in the negotiated Memorandum of Understanding (MOU) and Employee Bid (attached) during the term of the program, Fiscal Years 2007-2011. In return for meeting the established budget objectives, service level requirements, optimization initiatives, performance goals and customer service improvements, the parties agree to suspend any external efforts to pursue a competitive procurement process, as long as CS meets the stated objectives as described in the MOU and Employee Bid.

The MOU establishes the broad policy objectives for Bid to Goal. It defines the employees' responsibilities for cost savings and cost control as well as identifies broad performance requirements. The MOU also defines the performance incentive programs and the criteria for these programs. Incentives are built into the MOU to encourage additional savings, which are equally shared with employees and the ratepayers via Gainsharing and Pay for Performance programs. These programs are used to encourage employee innovation and to incentivize the fast and efficient implementation of change-initiatives which optimize operations and improve customer service.

The Employee Bid

The Employee Bid provides the detailed plan for implementing the broad policy described in the MOU. It provides the steps necessary to carry-on the commitments to efficiencies that will result in optimized operations, cost containment and enhanced customer service.

Implementation of BTG is projected to result in approximate savings of \$3.2 million and a reduction of 15 positions cumulatively during the term of the Employee Bid. Position reductions are projected to occur through attrition as the program's optimization initiatives are implemented. The Employee Bid ties performance to expenditure targets or Budget Objectives as described in the table below.

Table 4
Budget Objectives for Customer Support

Description	FY 2017	FY 2018	FY 2019	FY 2018	FY 2021
Division A - Description	\$ 1,248,000	\$ 1,248,000	\$ 1,247,000	\$ 1,247,000	\$ 1,247,000
Customer Support & Maintenance	\$ 2,145,000	\$ 2,144,000	\$ 2,145,000	\$ 2,172,000	\$ 2,174,000
Division B - Description	\$ 3,534,000	\$ 3,501,000	\$ 3,450,000	\$ 3,450,000	\$ 3,481,000
Customer Support	\$ 448,000	\$ 448,000	\$ 448,000	\$ 448,000	\$ 448,000
Pass-through Costs	\$ 587,000	\$ 522,000	\$ 487,000	\$ 480,000	\$ 488,000
Subtotal	\$ 22,467,000	\$ 22,566,000	\$ 21,807,000	\$ 21,310,000	\$ 21,371,000
Division A Allowance	\$ 427,000	\$ 1,763,000	\$ 2,446,000	\$ 3,050,000	\$ 4,587,000
TOTAL	\$ 23,294,000	\$ 24,329,000	\$ 24,453,000	\$ 24,860,000	\$ 25,958,000

In order to meet these expenditure objectives, CS assumed implementation of the following initiatives.

- Effective use of technology:
 - Customer Information System (CIS) implementation.
 - Automated Meter Reading System (AMR) Implementation (Phase I).
- A partially budgeted Pay for Performance Program.
- Rigorous performance measurement and tracking.
- Reallocation of the Community Forest Initiative.
- Enhanced Commitment to improved training.
- Reduction in City-maintained, privately-owned backflow devices.

Quality Control

In order to track expenditure levels and document progress, BTG requires the implementation of qualitative and quantitative performance metrics and monthly financial reporting. Monthly Report-out meetings provide for greater communication of progress and early intervention when problems are identified. These monthly reports provide a tool for the Division to present progress results from improved processes, the application of employee suggestions and overall productivity improvements. At the same time, it allows the CS Management Team the opportunity to provide timely feedback on progress and change as it occurs.

CS also has defined the Service Level Requirements that at a minimum will be met in order to comply with the Employee Bid and which will be necessary in order for employees to be eligible for performance incentives. Compliance with this requirement will be established by the Mayor’s designee in the Business Office.

In addition to monthly reporting and other review processes, independent end-of-year audits of performance measures and Service Level Requirements will be conducted to validate CS reported findings and results. The audited results will be reviewed by Water

Management, the labor unions and the Mayor's Business Office for certification and approval.

FISCAL CONSIDERATIONS:

The Bid to Goal strategy results in cumulative savings of approximately \$3.2 million for the term of the agreement (Fiscal Years 2007-2011). No additional consultant costs are included with the proposed bid. The costs associated with administration of Bid to Goal are included within the expenditure objectives of the program.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

Three Bid to Goal programs have been approved, two in MWWD and one in the Water Department, Operations Division.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

As with other operations and initiatives impacting the provision of Water services, related results, impacts and requests for resource allocations will be briefed in public forum at the Public Utilities Advisory Commission and other oversight venues as appropriate.

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

Results of actions described above will be designed to deliver services in ways most beneficial to the water and sewer systems ratepayers, and as consistent as practicable with developing/maintaining the most appropriate labor-management partnership between the City and participating labor organizations.

J. M. Barrett
Water Department Director

R. F. Haas
Deputy Chief of Public Works

AR/DMD

Attachments:

- [1. San Diego Water Department/Customer Support Division Assessment Report](#)
- [2. City of San Diego Water Department Customer Support Division Bid to Goal Memorandum of Understanding \(MOU\)](#)
- [3. The City of San Diego Customer Support Division Bid to Goal Employee Bid](#)