



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: February 8, 2011 REPORT NO: 11-024

ATTENTION: Committee on Rules, Open Government, and Intergovernmental Relations,
Agenda of February 16, 2011

SUBJECT: Implementation of the Water Fund Bid to Goal Program (B2G)

REFERENCES:

- 1) Public Utilities Department Bid to Goal Memorandum of Understanding: Water Fund Employees
- 2) B2G Audit Report from the Office of the City Auditor dated February 2, 2010
- 3) Metropolitan Wastewater Bid to Goal Memorandum of Understanding
- 4) Water Department Customer Support Division Memorandum of Understanding

REQUESTED ACTION: Approve the implementation of a Water Fund Bid to Goal Program for a period of five fiscal years (FY2010 through FY2014), and recommend ratification by the full City Council of the related Memorandum of Understanding.

STAFF RECOMMENDATION: Adopt the Resolution.

SUMMARY:

Background

The Mayor has formally notified the MEA and AFSCME of his decision to discontinue the Bid to Goal program, effective July 1, 2011. In so doing, the Mayor has also agreed to recommend to City Council that they honor the terms of the Bid to Goal agreements for FY10 and FY11. In order to honor those agreements, the recommended actions will have to be executed by the full Council. For FY10 and FY11, Public Utilities department employees both operated under the terms of the to-be-approved B2G program and ratified the terms and conditions of the tentative agreement associated with the MOU being proposed.

From its initial conception, the B2G program has been adopted in various forms in different Branches of the Department. Currently, the Public Utilities Department has B2G agreements in place for the entire Wastewater Fund (FY2008 through FY2012) and the Customer Support Division of the Water Fund (FY2007 through FY2011). The Water Operations Division had a five year program that ended in FY2009, while the support divisions of the Water Fund have never been included in a B2G program.

The B2G program has a track record of success since its inception and was in some measure responsible for \$116.2M audited savings identified in the City Auditor's Office Report (**Attachment 1**) for fiscal years 2005-2008. However, this degree of savings is not likely to be repeated in succeeding years due to the increasing difficulty of identifying organizational improvements with the same frequency and impact as in prior years. Moreover, department management feels that, on a going-forward basis, additional organizational tools are available to provide for continual improvements outside of a formal B2G program.

With the approval of the proposed MOU, the Department seeks to adopt a Water Fund-wide program which will bring all Public Utilities employees into a B2G Program, including those employees not previously included in such a program. In the newly consolidated Department, it would be sub-optimal to have only a portion of the employees in an incentive program. This situation would be pronounced in five Divisions of the newly created Department (i.e. Finance and Information Technology; Employee Services and Internal Controls; Engineering and Program Management; Long Range Planning; and Environmental Monitoring and Technical Services), as these divisions include employees working side-by-side on water and wastewater activities, with only some employees working under an existing B2G program.

B2G Strategy and Key Features

The B2G Program has been an optimization tool for challenging and incentivizing employees to perform at a level that both meets or exceeds the best practices of a high performing Public Utility, and achieves its service delivery at a cost that is competitive in the industry. A primary feature of the B2G Program is the opportunity for employees to receive "incentive awards" for meeting or exceeding pre-established annual performance goals. However, employees can only be awarded incentive awards if the respective B2G Program has generated audited savings in excess of a budget that is superior to a competitive assessment referred to as a Private Market Proposal.

The value to the Department and the ratepayers from the B2G Program has included:

- Creation of an organizational culture that emphasizes **continuous improvement** through technology, innovation and evaluation;
- Demonstrated commitment by management and employees to **operating efficiently** and with less resources, while ensuring that quality standards are not compromised;
- **Motivated employees** who willingly adopt the **best practices in the industry**; and
- **A more accountable and transparent organization** that tracks successes and process improvements.

Some of the key features of the program are:

- A competitive assessment, utilizing industry benchmarking and best management practices, developed at least every five years, or when substantially changed conditions within the Public Utilities Department dictate.
- The B2G Memorandum of Understanding (MOU), as ratified by the City and its partnering labor organizations, setting forth the basic ground rules for an agreement between the Mayor, the Public Utilities management team, and Public Utilities employees. The MOU covers a multi-year period, which may last up to 5 years. The MOU for the proposed Water

Fund Program is **Attachment 2** of this Report.

- The Labor Management Partnership (LMP) Bid represents the employees' and management's best effort to provide responsive services at the lowest reasonable cost. The LMP is comprised of employees represented by Local 127 of the American Federation of State, County, and Municipal Employees (AFSCME Local 127) and employees represented by the San Diego Municipal Employees Association (MEA). Also included in Water's LMP are classified unrepresented employees and the Public Utilities Management Team.
- Incentive Awards cannot be made unless there are audited savings in excess of the pre-determined budget defined in the LMP Bid.
- Employees not performing at a satisfactory level are not eligible for an award.
- Unclassified Management is not eligible for an award.
- Program savings can be used to pay for other items that will benefit the Public Utilities Department such as, but not limited to, training and equipment.
- Program administrative costs are paid for out of program savings.

New Program Enhancements

At the request of the Audit Committee, the City Auditor conducted an extensive audit of the B2G Program, and that report was issued on February 2, 2010. Based on the recommendations in that audit, many changes have been incorporated into program procedures, to include:

- Expanding future annual external audits to include: (1) B2G payouts and employee eligibility, and (2) the Employee Efficiency Incentive Reserve;
- Improving the goal development process to ensure that goals are measurable, auditable, challenging and reasonable based on industry benchmarks and/or best in class standards;
- Improving the involvement of employees at all levels of the organization in goal setting;
- Maintaining key B2G records centrally;
- Adding B2G Annual Reports, audits and other documents to the public website;
- Tracking B2G administrative costs and subtracting those costs from any B2G savings prior to payouts; and
- Creation of a comprehensive B2G Policy and Procedures manual (**Attachment 3**).

Water Fund Private Market Proposal (PMP) and Statement of Work (SOW)

The overall objective of the B2G process is to ensure that ratepayers enjoy high quality services that are delivered at a competitive price. In order to determine competitive costs without requesting bids from the private sector, an engineering consultant was hired to establish a cost assessment (PMP) for the services under study. HDR Engineering, Inc. (HDR), an expert in the field of water and wastewater operations and engineering, was selected to perform the analysis.

The PMP was prepared to serve as the benchmark for the overall B2G process. It will serve as the basis for the cost "Goal" of the B2G process and also included operational recommendations. The PMP was developed using HDR's industry relationships and knowledge of best management practices. The PMP is HDR's opinion of the competitive cost to operate the utility utilizing private sector efficiencies based on the service levels identified by the Department. HDR was not tasked

with the evaluation of the service levels, with the development of the SOW, or verification of work tasks and level of effort (e.g., productivity).

The City of San Diego’s B2G program is an optimization, assessment and benchmarking comparison of the operational work tasks and functions of each Water Fund Division against private utility operating company and “best in service” public utility practices. This process is not a true competitive “bid” as would be developed by private utility operating firms in a privatization (asset sale), lease agreement, or operating contract solicitation. The B2G program is not intended to serve as the lowest possible industry cost to operate and maintain the City’s water system, but is a continuous improvement process designed to improve service to the City’s residents while increasing efficiency, lowering operating costs over time, maintaining control over the system to ensure safe drinking water is being delivered to the customers and maintain affordable rates.

Labor Management Partnership Bid

The LMP Bid outlines the proposed cost to provide the services in the SOW from the perspective of the Department and labor organizations. The LMP Bid represents the employees’ and management’s best effort to provide responsive services at the lowest reasonable cost. Management ensures the bid considers the content and the performance levels contained in the SOW. It is the intent that the final LMP Bid must be responsive, responsible and superior to the PMP. The LMP Bid is accepted and signed by the Mayor, upon the recommendation of the Director, after the MOU is approved by the City Council. The LMP Bid will be adjusted annually in succeeding years in accordance with the MOU.

The FY 2010 LMP Bid, totaled \$138,763,168 (See Table 1).

	Fiscal Year 2010 Appropriations	PMP	Fiscal Year 2010 LMP Bid	Budgetary Savings
All Divisions Subtotal	138,776,715	133,687,147	133,612,059	\$ (5,164,656)
Contractor Contingency and Profit	-	3,587,179	-	-
All Divisions and PMP	138,776,715	137,274,326	133,612,059	-
Treated Water	12,115,849	1,650,000	5,151,109	\$ (6,964,740)
Total*	\$ 151,443,872	\$ 138,924,326	\$ 138,763,168	\$ (12,680,704)
*Excludes out of scope items such as untreated water, debt service, contract administration, and contingency/reserves .				

Table 1 Comparisons

The PMP serves as the basis for comparison of the FY2010 LMP Bid. The PMP is an estimate of the cost to manage, operate, and maintain the water system currently provided by the City through the

Public Utilities Department using private industry standards and practices, and public utility best management practices. In using the PMP, developed by an independent firm, the City has a reasonable benchmark to set achievable goals to accomplish certain financial and management objectives and to improve the overall efficiency and safe operation of the water system.

Table 1 compares the FY2010 LMP Bid with the PMP and the FY2010 appropriation (In-Scope) to demonstrate the reduced costs that the Department will undergo to be superior to the PMP.

At \$138,763,168, the FY2010 LMP Bid is:

- \$161,158 less than the PMP; and
- \$12,680,704 less than the FY2010 appropriation (In-Scope).

Bid to Goal Savings Necessary for Employee Incentive Payments

It should be understood that employees will only be eligible for an incentive payment if the actual in-scope costs upon year-end closeout is less than the LMP Bid for that same year. Employees do not receive incentive payment on the budgetary savings identified above.

Internal Controls

Internal Control activities are a central part of the B2G Program and are performed throughout the planning, implementation and review phases. To ensure program accuracy, consistency and compliance, the Public Utilities Internal Controls' staff conducts internal reviews, coordinates annual external audits, and maintains centralized program records for proper document control as described in the B2G Policies and Procedures Manual (DI 15.24).

Program Development Timing

The Department completed development of the LMP Bid and associated performance measures in July 2009. As a result of the request by the Audit Committee to perform an audit of the B2G Program in May 2009, the Department was unable to move forward to gain approval of the FY2010 – FY2014 Water Fund B2G Program until completion of the audit. The audit was presented to the Audit Committee on March 22, 2010. Following the completion of the audit, the Department incorporated the audit recommendations into the B2G MOU and completed the “meet and confer” process with the impacted labor organizations.

If the FY2010-FY2014 Water Fund B2G Program is not approved it will have a significant impact on the morale of the employees within the Water LMP. Employees covered by this program have worked towards achieving the bid and performance measures for the entire FY2010. Additionally, they have developed goals and have been working towards achieving the bid and performance measures for FY2011 in anticipation of approval of the Program.

FISCAL CONSIDERATIONS:

The objective of the B2G strategy is to operate efficiently while maintaining operating standards. The program is designed to facilitate savings from the LMP Bid through employee initiatives and involvement. If no savings are generated in a fiscal year, then no incentive awards are authorized.

All program development and administrative costs are reimbursed from the EEIR savings amount prior to deposit.

Costs associated with the adoption of this Resolution are paid for from Department savings.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The proposed Water Fund Public Contracts Operations Agreement and the amended Wastewater Fund Public Contracts Operations Agreement were presented to the Independent Rates Oversight Committee (IROC) on May 17, 2010, and IROC voted unanimously to support both agreements.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Public Utilities Management, Labor Relations, and representatives from both MEA and Local 127 met and conferred upon a new Water Fund Bid to Goal Agreement from October 2009 through May 2010 at both separate and combined tables. The new agreement was nearly unanimously approved by members of both unions in May 2010.

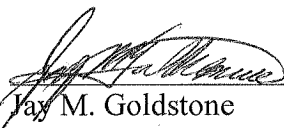
The B2G Program serves as another tool by which the Department can incentivize the delivery of services in ways beneficial to the water and wastewater systems ratepayers, and fosters high morale and positive relations with the labor management partnership consisting of the City and participating labor organizations.

Conclusion

City Council approval of the requested action will result in all Public Utilities' employees being included in a B2G Program. Approval of this action will activate a Water Fund-wide B2G Program for the Fiscal Years of 2010 through 2014.



Roger S. Bailey, P.E.
Director of Public Utilities



Jay M. Goldstone
Chief Operating Officer

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Attachments:

1. B2G Audit Report from the Office of the City Auditor dated February 2, 2010
2. Public Utilities Department Bid to Goal Memorandum of Understanding: Water Fund Employees
3. Bid to Goal Policies and Procedures Manual, DI 15.24
4. Private Market Proposal for Water System Management, Operations, and Maintenance Services (Due to its large size, the PMP is available electronically upon request, by calling Darlene Morrow-Truver 858-292-6384.)