

CITY OF SAN DIEGO
WATER DEPARTMENT
CUSTOMER SUPPORT 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, 2006, and to conclude on June 30, 2011, between the Mayor on behalf of the City of San Diego (City), the Water Department Director and the management team and employees of the Customer Support Division, hereinafter referred to as the Customer Support Team. The Customer Support Team is comprised of employees represented by Local 127 of the American Federation of State, County, and Municipal Employees (AFSCME Local 127); employees represented by the San Diego Municipal Employees Association (MEA); as well as the classified Unrepresented employees and the Customer Support management team, the Assistant Deputy Director and the Deputy Director of Customer Support. The Mayor, the Water Director, the Customer Support Division management team, employees represented by AFSCME Local 127, employees represented by MEA, and the Customer Support classified Unrepresented employees are hereinafter referred to as "the parties." This MOU is subject to the respective ratification processes of the parties, including and culminating in approval by the Mayor and City Council of the City of San Diego.

II. RECITALS

WHEREAS, the Customer Support Division is responsible for customer service operations of the Water Department and Metropolitan Wastewater Department; and

WHEREAS, the City desires to conduct customer support services in the most efficient and effective manner possible for the benefit of rate payers, consumers, and stakeholders, while complying with all federal, state, and local laws, rules, and regulations, and while protecting and promoting the health and safety of Customer Support employees; and

WHEREAS, efficient and effective customer support services require unique and specialized skills and certifications together with experience and expertise in new technologies; and

WHEREAS, the Customer Support Team has acquired and refined these same skills, certifications, and expertise; and

WHEREAS, the Customer Support Team is committed to maintaining the necessary skills and expertise in new technologies and business practices; and

WHEREAS, the Customer Support Team is committed to providing resources to facilitate the training of employees covered under this MOU in order to maintain and improve the skills, certifications, and expertise in new technologies of employees; and

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

WHEREAS, the Customer Support Team is committed to continually improving the quality of services for the benefit of the rate payers, the community, and Departmental employees; and

WHEREAS, past optimization efforts toward improved efficiencies and effectiveness by the Customer Support Team have led to improved quality of service and cost savings.

NOW THEREFORE, the parties agree that the process described in this document, referred to as "Bid to Goal," is a mutually accepted and supported process to assess and continue to optimize the operations, policies, and practices of the Customer Support Team of the Water Department into a more competitive and improved organization.

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

III. SCOPE AND DEFINITIONS

The scope of the Customer Support Team's Bid to Goal program is herein defined as a commitment by the parties to achieve attainable Budget Objectives and performance measures, as identified in this MOU. This scope includes the following activities and the Division's direct support of these activities:

■ **Customer Services Office**

- Section Management
- Clerical Support
- Exception Billing
- Collections / Overdue Accounts
- Customer Information
- Water Repair
- Payment Processing

■ **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
- **Division Administration**
 - Division Management
 - Public Relations

The Information Systems Activity Group is not within the scope of this Bid to Goal program. 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 this Bid to Goal program. Such new facilities or activities may be brought within the scope of this Bid to Goal program through reopened negotiations of this MOU initiated by the parties.

All facilities, employees, and functions within this scope shall hereinafter be referred to as Customer Support. The Customer Support Team is comprised of Customer Support classified employees represented by MEA and AFSCME Local 127, classified Unrepresented employees, and the Customer Support management team.

Bid to Goal is herein defined as an agreement and commitment by the parties to the goals relating to budgetary and organizational efficiencies of Customer Support, as identified in this document and the Employee Bid. The parties agree to preclude any external efforts to pursue a competitive procurement process, as long as the Customer Support Team meets the stated objectives during the term of this MOU as specified in Section V.A.

The Employee Bid provides a detailed plan and the commitment to achieve cost and service levels developed and offered by the labor/management partnership of the Customer Support Team to meet the Goal. The Mayor will assess the sufficiency of the Employee Bid within a reasonable time period.

Mayoral assessment or authorization of any element of this MOU or the Employee Bid may be provided by the Mayor or the Mayor’s designee within this assessment period.

The Goal of the Employee Bid is to yield economic benefits as soon as practicable, while maintaining the integrity and soundness of capital investments, infrastructure, and high levels of customer service; and while 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, while challenging the Customer Support Team to identify and implement efficiencies that improve the quality of

services, reduce costs, and achieve savings as defined in the Budget Objectives, Baseline and Monetary Savings, Section IV. B.

The Budget Objective is the total annual compensation paid to Customer Support to operate, maintain, and manage the in-scope activities of Customer Support for each fiscal year during the term of this MOU. It is understood that the Budget Objectives detailed in this document fall within the competitive range for operating Customer Support as determined by an engineering consulting firm nationally recognized for assessing and optimizing municipal water systems.

Monetary Savings is defined as the difference between projected spending under current practices, labeled as the "Baseline," and projected spending from operations that have been refined and optimized, labeled as "Budget Objectives." These terms are more fully defined in the Goal, Section IV.

The Employee Bid is based on the best efforts of the parties to forecast the results of various efficiency related initiatives. Optimal outcomes may provide greater savings than the Monetary Savings stated in the Budget Objectives, Baseline and Monetary Savings, Section IV.B. When such Additional Savings occur in a year (the Budget Objective less the in-scope actual expenditures), 50 percent of this additional savings amount shall be placed in a Water Department Assurance Fund account and may be expended for the Customer Support Team's needs including credits toward future Budget Objectives, technology improvements, training, Pay for Performance, and Gainsharing incentive awards with employees. The Gainsharing and Pay for Performance Programs are described in Section IV.E. of this document.

IV. GOAL

The Goal as memorialized in this MOU is a commitment to conduct customer support services effectively, efficiently, and competitively. The Goal reflects a level of competitive performance and cost efficiency developed by independent, external consultants nationally recognized for optimization of municipal water operations. In addition, the Goal has been reviewed and supported by employees currently operating Customer Support 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 Customer Support functions must be maintained at current standards, or better, as described in the Employee Bid. The parties acknowledge that there may be reasonable differences of interpretation regarding service level components and standards. Therefore, the Employee Bid presented to the Mayor in conjunction with this MOU for his review and approval will fully detail the level of service in this regard.

B. Budget Objectives, Baseline, and Monetary Savings

Budget Objectives have been established based on an optimization assessment for the Customer Support in-scope operations for Fiscal Years 2003 to 2005, with annual

projections for the term of this MOU. The Budget Objectives include the in-scope costs of operations, maintenance, and management; the pass-through costs; the divisional contingency; and the allowance for inflation. The Budget Objectives provide a more specific commitment to the timing and level of Monetary Savings to be yielded from this program and represent the funding that the Customer Support Team will receive for the in-scope services provided. The Budget Objectives shall not be changed, except as provided in this MOU and the Employee Bid.

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 Monetary Savings, which total approximately \$3.19 million during the term of this MOU.

Table 1
Projected Budget Objectives and Savings

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Baseline	\$23,277,000	\$24,208,000	\$25,176,000	\$26,183,000	\$27,230,000
Budget Objectives	\$23,294,000	\$24,329,000	\$24,453,000	\$24,869,000	\$25,938,000
Savings	(\$17,000)	(\$121,000)	\$723,000	\$1,314,000	\$1,292,000

The Budget Objectives of the Employee Bid tie the Customer Support Team’s performance to the Water Department’s Mission “to provide San Diego with Safe, Reliable, Cost-Effective Water and Outstanding Customer Service in an Environmentally Sensitive Manner” and its Vision “to be a Best-in-Class water utility for our customers.” The Customer Support Team’s performance and service levels will be measured to document that it is providing the community with outstanding customer support 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. The Budget Objectives and performance and service levels of the Employee Bid are based on maintaining the optimized staffing levels specified in the Employee Bid. Modification of this MOU and Employee Bid may result if the specific initiatives described in the Employee Bid are not accepted by the Mayor. Specific initiatives included in the Budget Objectives are:

- 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.

The parties acknowledge that the organizational re-engineering necessary to optimize Customer Support will be a significant undertaking. The necessary changes to processes, behaviors, including but not limited to communication, 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.

Meeting the annual Budget Objectives requires a transition period from the current Baseline cost of Customer Support operations to the proposed fully optimized cost of Customer Support operations achieved at the completion of the Employee Bid. As progress is achieved during the term of the Employee Bid, this will result in performance improvements and savings prior to full optimization, yet maintain Customer Support staffing stability and continuity during the transition period. This gradual transition maximizes the potential to use attrition for staffing reductions, while allowing implementation of on-going initiatives that may optimize staffing plans, and minimizes the possibility of employee layoffs.

C. Cost Inflation

The assumption in the projections for inflation is four (4) percent; however, the intent of the parties is that actual Budget Objectives will be recalculated with Non-Personnel Expenses (NPE) adjusted to the Consumer Price Index (CPI) and Personnel Expenses (PE) adjusted with consideration of negotiated employee salary, fringe benefit, and other compensation cost increases applied to Customer Support. Other specific adjustments for costs related to unforeseen circumstances may be made only pursuant to the Administration of the MOU 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 Department account, identified as the Assurance Fund, for the purpose of possible Customer Support Team uses including but not limited to those listed below. Such additional savings may be contingent upon review of the Customer Support Team's performance and expenditures consistent with the Employee Bid. This Assurance Fund account is capped at a maximum amount of \$2,197,000. Assurance Fund expenditures will follow normal City rules and authorization processes. Potential uses of this account include but are not limited to:

- 1) Credits toward Budget Objectives 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 the Customer Support Team, and/or
- 3) To establish and meet the funding requirements of the Gainsharing and Pay for Performance Programs. The Gainsharing and Pay for Performance Program parameters and limits shall be developed by the Labor/Management Committee described in Section V.D.

Expenditure of any funds from the Assurance Fund is contingent upon certification by the Mayor's Office that the Customer Support Team has achieved Substantial Conformance to terms of the Employee Bid (Section 1.6.1) and requires authorization by the Department Director based on recommendations of the Labor/Management Committee.

At the conclusion of the term of this MOU, should monies identified above remain in the Assurance Fund account, the remaining account balance can continue to be used for the following Customer Support Team purposes: a) an account in a successor agreement, if any; b) to purchase otherwise unfunded new technology and/or training to promote the effectiveness and professionalism of the Customer Support Team; or c) for Gainsharing and Pay for Performance cash incentive Programs in accordance with the Employee Bid, as authorized by the Department Director based on recommendations of the Labor/Management Committee.

E. Gainsharing and Pay for Performance Programs

The parties agree that funding in the Assurance Fund account, if any, may be set aside for the employee Gainsharing and Pay for Performance Programs pursuant to the provisions established by the Labor/Management Committee as described in Section IV.D. of this MOU. Beginning in Fiscal Year 2008, funds established for the Assurance Fund may be used for annual cash employee performance incentives. The Gainsharing and Pay for Performance Programs will be developed through the Labor/Management Committee process and shall be described in more detail in the Employee Bid.

F. Actual Expenditures

Actual expenditures and encumbrances represent the amount of money spent to provide in-scope Customer Support services.

V. ADMINISTRATION OF MOU

A. Default Thresholds

Customer Support Team spending less a) an amount of no more than two times the unexpended monies in the Assurance Fund account, and b) any City authorized amount of enhanced Customer Support revenues allocated to budget shortfalls, may not exceed Budget Objective spending as adjusted annually, pursuant to Sections IV.C. Cost Inflation; V.B. Budget Performance Monitoring; and V.C. Uncontrollable Events/Changes in Law, by more than a cumulative total of \$2.2 million during the term of this MOU. Should the cumulative Customer Support Team spending exceed Budget Objectives, as defined above, by more than \$2.2 million, this MOU may be deemed in default.

All annual Budget Objectives shortfalls of Customer Support Team must be repaid in total before a positive balance can be established in the Assurance Fund account or before funds can be expended from the Assurance Fund account. Customer Support Team 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 Mayor and City Council's discretion, result in a competitive procurement process of Customer Support pursuant to and consistent with applicable City policies, City's labor contracts and applicable regulations and laws. In the

alternative, the Customer Support Team may present a plan to cure default that the City shall have discretion to accept, modify, or reject, consistent with applicable law.

B. Budget Performance Monitoring

The parties agree that the methods to be used to monitor performance during the term of the Employee Bid shall be typical of the methods used by public agencies in assessing the performance and costs of private contract operators of other Customer Support facilities and functions. To that end, costs properly charged to the Customer Support Team will be limited to those associated with core Customer Support Team functions as defined in the Budget Objectives. The costs charged to the Customer Support Team would properly exclude:

- Costs directly associated with the Capital Improvement Program (CIP).
- Employee time or Customer Support resources, beyond current levels, for activities that are mandated by the City but are not associated with core functions as defined within the Budget Objective.

Changes in revenues associated with Customer Support operation will not directly impact the Customer Support Team's 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 Mayor's Office. The Mayor may, based upon the review, authorize some or all of this innovative revenue to be allocated to the Assurance Fund.

At least annually, within 120 calendar days of fiscal year end, the Customer Support Team shall submit a Performance Report to the Mayor after review and approval by the Department Director. The Performance Report shall include the following:

- A narrative description of how the Budget Objectives have been accomplished, both financially and operationally.
- Performance Standards – Quantitative measures of performance which demonstrate standards have been met or exceeded.
- A statement indicating substantial conformance with service level requirements as outlined in Section 1.6 of the Employee Bid.
- Explanations for all instances where Budget Objectives and performance standards have not been met and an action plan for correcting the situation in the current year.

The annual Performance Report shall be reviewed by an independent auditor who shall issue a report to the Mayor and the Water Department Director related to the review. A copy of the report shall be provided to each labor union.

Actual performance monitoring and reporting requirements are more clearly defined in the Employee Bid. It is understood that the Budget Objectives detailed in this MOU shall not be adjusted for the term of this MOU, subject to adjustments only pursuant to the express

language of this Section and in the subsections titled "Budget Objectives" (IV.B.) and "Cost Inflation" (IV.C.).

C. Uncontrollable Events/Changes in Law

The Budget Objectives of the Employee Bid were developed based on reasonable and foreseeable assumptions of projected costs and savings. However, the parties understand and acknowledge that extraordinary unforeseen events, beyond the reasonable control of the Customer Support Team, may result in costs that could significantly affect their ability to meet the stated objectives.

To protect and promote the objectives of this MOU, the parties agree that cost impacts associated with extraordinary and unforeseen events may lead to adjustments of the Budget Objectives for purposes of assessing 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 the number of customer accounts assumed for establishing the Budget Objectives.
- Significant changes in the cost of postage, or changes in mailing formats mandated by the U.S. Postal Service.
- Breakdowns of major equipment or capital assets.
- Catastrophic acts of nature, terrorism, or war.
- Any other events beyond the reasonable control of the Customer Support Team, including changes in law, that have a material effect upon costs or the ability of the Customer Support Team to perform to the terms of this MOU or the Employee Bid that may have the effect of reopening negotiations to make appropriate adjustments to the Budget Objectives.

The Director of the Water Department shall be responsible for investigating uncontrollable events/changes in law to determine materiality, as detailed above. Upon such findings, the Director shall issue notice to the parties of this MOU 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 Customer Support for assessing performance upon written recommendation and subsequent approval by the Mayor, 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 Employee Bid and/or Budget Objectives shall be described in the Employee Bid.

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 goodwill of this effort.

To that end, the Customer Support Management Team, AFSCME Local 127, and MEA will establish a 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 will develop standard operating procedures and policies related to the Assurance Fund, set limits and parameters for recommending awards to participating employees and other expenditures from the Assurance Fund, and recommend application of its standard operating procedures and policies for specific circumstances, when applicable. All actions of the Labor/Management Committee are subject to the approval of the Water Department Director.

The Labor/Management Committee shall consist of two (2) employees represented by AFSCME Local 127, plus one (1) non-voting alternate, as appointed by the President or his/her designee; two (2) employees represented by MEA, plus one (1) non-voting alternate, as appointed by the President or his/her designee; the Customer Support Deputy Director; the Customer Support Assistant Deputy Director; and up to two (2) appointees of the Deputy Director, plus one (1) non-voting alternate. One (1) of the (2) two voting appointees of the Deputy Director shall be a classified Unrepresented employee. These appointments are 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 the Customer Support Team represented employees. All rights and benefits of the parties under existing and future labor contracts are preserved.

F. Dispute Resolution

Any disputes that arise (except for the audits of the Performance Report conducted by the independent auditor, which are not appealable) from a claim or charge of misunderstanding or difference in interpretation or violation of this MOU shall be resolved through the reasonable good faith use of applicable 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 services provided to the customer 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 good faith effort will be made to effect staffing reductions through attrition.

I. Successor Agreement

The parties recognize that insofar as it is in the public's and the parties' mutual interest, and that insofar that the parties will have met the terms and conditions of this MOU and Employee Bid, 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: _____

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

CITY OF SAN DIEGO

Joan Raymond, President

Jerry Sanders, Mayor

SAN DIEGO MUNICIPAL EMPLOYEES
ASSOCIATION

*J.M. Barrett, Director
Water Department*

John Torres, President

*Alex Ruiz, Deputy Director
Customer Support Division*

*Michael Bresnahan, Assistant Deputy
Director, Customer Support Division*