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## Attachment A-1 Executive Summary

### The Productivity Initiative

The Productivity Initiative is a program for the King County Wastewater Program (WWP) to more efficiently manage and operate the wastewater utility, meet its key customer and regulatory commitments, and reduce costs. Implementing the Pilot Program Plan for the Productivity Initiative will:

- Use private sector management and operational techniques to reduce costs, increase efficiency, and improve the services of the WWP.
- Increase accountability and define how the WWP uses public wastewater rate funds.
- Allow for additional opportunities for labor and management to work together.
- Create an incentive program for employees to make process improvements and increase efficiencies.
- Demonstrate King County's willingness to respond to increasing public demand for government services to be delivered as cost-effectively as possible.

### The Vision

***Productivity Initiative Five-Year Vision:*** Be the best public wastewater program in the nation—a balanced combination of the best service, best employer, best employees, and cost effectiveness.

***Productivity Initiative 10-Year Vision:*** Be competitive with the best of the private service providers.

The Productivity Initiative poses this question: *Would ratepayers benefit from a public utility that was operated more like a private business?* WWP employees and management believe that the answer to this question is "yes," and have developed this Pilot Program Plan to demonstrate how WWP is proposing to deliver those benefits to the public.

### Pilot Program Goals

The Pilot Program is a plan to apply business practices to the WWP using tools and measurements developed during 2000. It represents a commitment by the Executive to "pilot" some aspects of a private-sector approach to management of the WWP, learn from the experience, and apply it to other County functions. The

Pilot Program is built upon the wastewater program business plans developed as part of the Productivity Initiative and will:

- Demonstrate how private sector models may improve management of a public sector utility, and provide "lessons learned" that can be applied to other County functions over time.
- Help the WWP improve cost efficiencies, identify expenditures and major cost centers, and allow the WWP to respond to any future proposals to privatize the utility.
- Provide savings to the public by minimizing increases in the wastewater rate while also meeting growth demands outlined in the Regional Wastewater Services Plan.
- Clearly outline where the WWP is accountable for costs, define target budgets, and hold management accountable for meeting the targets.
- Allow employees to meet senior management's challenge to become recognized as the best publicly run wastewater utility in the nation in five years and be competitive with a privately run utility in 10.

### **Applying Private Sector Techniques**

The overall mandate of the Pilot Program is to demonstrate what can be accomplished when flexibility is given to use the best business techniques, employee involvement, and performance incentives. Minimum expectations are that the WWP will continue to produce quality products and deliver a high level of service at a cost comparable to the private sector. The program will vest employees by sharing the results (both positive and negative) of applying private sector practices, and by fully utilizing the efforts, skills, knowledge, and flexibility of workers employed by the utility.

Initially, the WWP focused on a joint labor/management business planning process. This planning effort identified five key areas within WWP's direct control—wastewater treatment, conveyance, administration, capital systems, and laboratories. Five technical business plans were prepared by teams of management, employees, and supervisory staff, and included specific strategies that outlined estimated costs savings, time frames, and persons accountable for action. This planning effort does not take the place of existing collective bargaining agreements, but rather creates an opportunity for labor and management to join forces, develop plan execution strategies designed to emphasize continuous improvement, and link results to the work force.

This Pilot Program Plan envisions good-faith work efforts on service agreements with support agencies. Should the WWP and support agencies be unable to negotiate such consistent agreements, the WWP would pursue opportunities to

self-perform these services, where appropriate, with an agreed-upon commensurate reduction in charges to the WWP.

The Pilot Program also encourages adopting employee ownership philosophies in the WWP's operating model that reflect private industry. Subsequently, strategies may include the expansion of services provided by WWP employees, such as services that have historically been contracted to outside firms. Expanding services would have to demonstrate a positive impact on the costs of doing business before being implemented.

## **Attachment A-2 Wastewater Program Drivers**

Local, regional, and national trends all provide key drivers for undertaking the Productivity Initiative and preparing the Pilot Program Plan. The purpose of defining these major factors that influence the scope of the WWP is to establish 2000 as the benchmark year against which to measure future budget savings.

In general, regulatory requirements and future expansion needs of the regional system all drive the WWP scope. The Productivity Initiative focuses on developing a business plan so that the work can be done more efficiently. National trends and general public expectations also play a role in the development of the Productivity Initiative and will influence the Pilot Program. These factors, and how the WWP will measure success of the Productivity Initiative, are outlined in Attachment A-1.

### **Scope of the Wastewater Program**

The WWP, part of the King County Department of Natural Resources, provides wholesale wastewater transport, treatment, and disposal service to 17 cities and 18 local sewer and water districts (component agencies). The County owns and operates the major sewer interceptors and pump stations that carry wastewater to its treatment plants. Component agencies individually own, operate, and maintain the pipelines and other conveyance facilities that carry wastewater to the interceptors.

Most of the WWP is located within the Wastewater Treatment Division, which includes these sections:

- Capital Improvement Program
- West Operations
- Planning and System Development
- Maintenance
- Finance and Administrative Services
- South Operations
- Technology Assessment and Resource Recovery
- Division Manager's Office

The WWP also includes two sections of the Water and Land Resources Division (WLRD)—the Environmental Laboratory and the Industrial Waste Program.

Attachment C-2 generally describes the WWP's services, assets, and service area. Detailed descriptions of the scope of its services are provided in the individual business plans that employees and management prepared in

November 2000 for five functional areas of the Wastewater Program (wastewater treatment, conveyance, laboratories, capital facilities, and administrative services). Budget estimates and future savings estimates are based on the existing scope of services. Changes to the scope, such as expansion of the existing service area, would require an amendment to the future estimated budget targets included in this Pilot Program Plan.

The facilities, physical assets, and service area boundaries that influence WWP's costs are described in Attachment C-2. Other notable factors that serve as a baseline for WWP's costs include the biosolids program, employee salaries and benefits, regulatory requirements imposed by state and federal agencies, and policies adopted by King County. The baseline description of current conditions is provided in Attachments C-3, C-4, and C-5.

## **Trends and Public Perception**

Ratepayers reasonably expect government utilities to deliver services more like service providers in the private sector where many functions are not specific to the general governmental role of regulatory control. Public utilities are increasingly being challenged by public demand for lower cost and higher performance. This trend has motivated a basic reassessment of how the public sector provides services and a focus on reinventing and reengineering public sector service delivery.

Nationally some public utilities are turning to the private sector to run the operations and maintenance component of their wastewater treatment plants and conveyance systems. The number of private operating and maintenance contracts for water and wastewater services increased from about 150 in the late 1980s to almost 1,000 in 1997. A review of the literature indicates about 90 utilities have recently privatized at least a portion of their wastewater operations.

In some cases, existing management systems were inefficient and privatization was the best option for the ratepayer. Privatization may lead to immediate cost savings for the public while the scope of services, maintenance levels, and permit requirements are adjusted at the expense of longer term environmental and public policy objectives. For example, a private-sector firm's costs may be lower in the area of odor control that is not legally required, with the firm choosing to assume the risk of future legal action. Through the Productivity Initiative, it is demonstrated that King County's wastewater employees know the system and operations better than any privately run operation and can achieve cost efficiencies while delivering high quality public service.

## **The Balanced Scorecard**

Historically, public utilities focused their measurement system and associated strategies on regulatory compliance and customer service. Most recently

privatization and other factors, such as the public's demand for more accountable government, have shifted the primary focus to measuring costs and financial impact. The Balanced Scorecard defines the organization's future success by setting objectives and measuring performance from four distinct perspectives which are key drivers for WWP.

1. The *People Management* (Learning and Growth) perspective directs attention to the basis of all future success—the organization's people and those systems and management practices that impact employee growth and satisfaction. A sound investment in these areas is critical to long-term success. WWP's adopted People Management performance indicators are:
  - *Employee satisfaction*
  - *Employee retention*
  - *Employee development*
  
2. The *Key Internal Processes* perspective focuses on the performance of core internal processes that drive the organization. Immediate and continuous improvement in key internal processes is a critical lead indicator of financial success in the future. WWP's adopted Internal Process performance indicators are:
  - *Regulatory compliance*
  - *Safety*
  - *Infrastructure management*
  - *Innovative strategies*
  
3. To convert key internal processes into financial success, public utilities must also meet their customers' and stakeholders' expectations. The *Customer Focus* perspective considers the organization through the eyes of the customer, so that the organization retains a careful focus on customer needs and satisfaction. WWP's adopted Customer Focus performance indicators are:
  - *Customer and stakeholder satisfaction*
  - *Environmental excellence (measurements not defined yet)*
  
4. Finally, the *Financial* perspective measures the ultimate financial results that the organization provides to its customers and stakeholders. WWP's adopted Financial performance indicators are:
  - *Rate stability for WWP portion of the budget*
  - *Budget variance*
  - *Debt service coverage*
  - *Cost per million gallons per day of wastewater treated*

The Balanced Scorecard integrates critical performance measures into a few manageable metrics so that management has the necessary data to quickly assess the health of the organization on four critical fronts. For the past seven

years, many companies have used the Balanced Scorecard to align objectives with the long-term strategy and mission of the organization.

A performance measurement system such as the Balanced Scorecard allows a public utility to align its activities with a strategic plan, which results in operational and financial efficiencies. It permits real deployment and implementation of strategy on a continuous basis. With it, a utility can get feedback needed to guide the planning efforts. Details on the adopted performance indicators and measurements are located in Attachment B-1, Outcomes of Change.



## **Attachment A-3**

### **Wastewater Program Process for Change**

The WWP did a complete assessment of the organization before developing the Pilot Program Plan. A consultant was brought on board to help review the organization, develop a strategy, and craft an approach to the Pilot Program Plan. Attachment A-3 briefly outlines that process.

#### **Organizational Assessment**

The consultant's first tasks were to conduct an organizational assessment, evaluate the data available, determine opportunities for organizational change, and identify significant issues. The consultant's full report, entitled *Phase I: Planning for Productivity* was issued in January 2000. The following is a summary of the consultant's initial findings:

- A great deal of valuable data is available to the WWP through the Multi-Agency Benchmarking Study (an ongoing benchmarking effort with other West Coast wastewater utilities).
- The WWP has an unusually high skill level among the trades in operations and maintenance. This is not the case in some utilities. The quality of staff throughout the organization, especially in operations and maintenance, should be recognized.
- The WWP has a long record of undertaking organizational change projects, in some cases dating back 20 years. However, WWP management also has a poor track record for implementing recommendations for change.
- Past organizational efforts have tended to focus on operations and maintenance, generating cynicism, aggravation, and resentment among the work force about new initiatives from "downtown."
- Staff expressed a high level of frustration with the perceived level of service from King County support agencies.
- While staff takes great pride in what they do, they also express a lack of ownership for outcomes that affect the entire WWP.
- Specific expectations are not made clear to staff and work units.

The WWP worked with the consultant to identify a programwide approach that could, when implemented over time, begin to address these problems. The following strategy was developed to begin exploring how process improvements could be identified and implemented.

***Use a balanced approach to organization change.*** The WWP should develop an approach to organizational change that does not focus solely on financial targets. Staff and management need to understand that WWP places equal value

on sustaining and improving key treatment plant processes, measuring financial performance, investing in staff resources, and maintaining customer satisfaction. The Balanced Scorecard was developed to ensure that each of these four quadrants is considered in decision making.

**Clearly define scope and costs.** One key element of the Productivity Initiative, and the fundamental purpose of the Pilot Program, is to define the WWP's scope of services, anticipate work to be accomplished, and allocate costs. Negotiating intergovernmental service agreements between the WWP and King County support agencies is critical to achieving a clear definition of WWP's scope and costs.

**Link rewards and security to performance.** Once WWP's targets are in place, employees should be rewarded for performance that exceeds those targets. Identifying those targets is part of the WWP's business planning effort.

### **Productivity Steering Team**

The Productivity Initiative needed to have a way for employees to participate directly in developing the strategies and plans for how to improve the organization. A Productivity Steering Team (PST) was created with members elected by staff to provide guidance and an avenue for reflecting employee comments and attitudes about the Initiative. The current PST members are chartered to serve an 18-month term (February 2000 to July 2001).

The PST consists of 17 representatives from management, staff, and labor. This includes nonsupervisory employees (one representative from each of the following: West Point Operations; South Plant Operations; Maintenance; Capital Improvement Program; Technology Assessment and Resource Recovery; Finance and Administrative Services; Planning and System Development; and Water and Land Resources Division's Environmental Laboratory and Industrial Waste Pretreatment Program). It also includes three supervisory employees from West Operations, South Operations, Maintenance, and the Capital Improvement Program, and one from the remaining WWP. Each of the three recognized labor unions is represented on the PST, as well as one unrepresented employee and two representatives of the WWP Management Team.

In general, the PST:

- Provides a mechanism for involving WWP employees in the Productivity Initiative.
- Integrates the existing management and work group structure into the Productivity Initiative.
- Develops recommendations for long-range planning and implementation measures.
- Reports to the WWP managers in WTD and WLRD.

- Communicates with the groups they represent in the organization.

The PST was instrumental in pulling together ideas for consideration in the business planning efforts, participating on the business planning teams, communicating progress (or lack thereof) to employees, and developing parameters for the Balanced Scorecard.

Other avenues for staff involvement and communication included holding "all hands" and individual group meetings, establishing a Hot Line, and publishing a regular newsletter. The PST, however, was identified as the primary channel for communicating guidance to management and facilitating employee feedback about progress of the Productivity Initiative.

### **Identification of Wastewater Program Business Lines**

The WWP's core business is to transport, treat, and dispose wastewater and its byproducts. Business lines were established to begin defining the program's scope of services and costs for which direct responsibility and accountability could be established. Those business lines are:

- **Operations.** Operate safe and reliable conveyance and treatment facilities.
- **Maintenance.** Maintain the equipment to ensure that it is safe and reliable.
- **Capital Program.** Improve, upgrade, and replace facilities for safe and reliable operations.
- **Combined Sewer Overflow.** Add facilities to meet legal permit requirements of regulators.
- **Regional Wastewater Services Plan.** Add capacity to meet projected growth.
- **Inflow and Infiltration.** Identify and reduce sources of inflow and infiltration.
- **Resource Recovery.** Reclaim and apply waste products into usable resources.

In support of these core functions are Industrial Waste, NPDES compliance, environmental planning, Environmental Lab, marine monitoring, and administration. Analyzing business lines provided the focus needed to define areas in the budget under direct control of the WWP and identify where the WWP could develop strategies to reduce costs.

### **Estimating Future Budget Targets**

Initial target savings identified by the consultant was 20 percent of the WWP operating costs. The WWP management was challenged to develop strategies to reduce costs by 20 percent over the next five years. This target was not based on a review of the WWP itself, but on the consultant's assessment of the cost savings a private sector firm would typically assert it could achieve by privatizing the operation. The consultant's assessment was used in the business planning

process as a target to test whether a 20-percent reduction for WWP would be achievable, and at what cost to WWP's customers, neighbors, employees, and King County government.

The strategies outlined in detail in the five business plans for the WWP underwent rigorous review to determine the likelihood of attaining the initial 20-percent target reduction over five years. The consultant determined that the WWP business plan strategies are reasonable, that the program already operates more efficiently than a typical wastewater utility, and has achieved cost efficiencies through the Gainsharing program and other efficiency efforts. Findings of the consultant specific to each of the five business plans and their strategies were documented in a report presented to the PST and WWP management team in December 2000. After significant evaluation of the strategies, and taking into consideration the parts of the budget over which the WWP has no control, the initial reduction target was revised. The PST, WTD Management Team, and consultants determined that a target reduction of about 12 percent for the operating budget over the next five years was a solid business planning target for the WWP.

### **Business Planning Along Functional Lines**

For the purposes of business planning, WWP was divided into five key functional areas: wastewater treatment, conveyance, administration, capital systems, and laboratories. Teams of staff and management developed specific action steps to reduce costs over the next five years. Each of the five teams produced plans over a four-month period, including a description of the functional area, a mission statement, and a work plan. The work plans identified objectives, the person(s) responsible for taking actions, strategies, and a description of how success (or failure) could be measured. Each of the strategies was categorized by the target date for implementation: immediately, 2005, or 2010. In some cases, issues were identified that required more strategic development before identifying a specific time frame for implementation.

These five business plans were accepted by the WWP in November 2000. They describe the full scope of the WWP and include the most complete set of strategies to consider pursuing. The five business plans will be consolidated into one overall strategy for the WWP by June 2001 (see Attachment B-1 for a description). The consolidated effort will be used to track compliance with commitments made for investing in change and ensuring that efficiencies are forthcoming.