

February 8, 2001

The Honorable Pete von Reichbauer, Chair
King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember von Reichbauer:

In 1999, labor, management, and employees of the Department of Natural Resources joined together, with my strong support, and launched the Productivity Initiative. The outcome of that work is the Productivity Initiative Pilot Program Plan -- a plan to apply business practices to the Wastewater Program (WWP, which includes portions of the Wastewater Treatment and Water and Land Resources Divisions). It is the first step in my vision of applying these practices to all departments in the County. The Pilot Program Plan represents a commitment to "pilot" some aspects of a private sector approach to management of the wastewater system, learn from the experience, and apply it across the County.

I am pleased to present you with a motion to establish the Productivity Initiative Pilot Program for King County. The Pilot Program represents more efficient government that results in savings. The attached motion approves the goals of the Productivity Initiative Pilot Program Plan and authorizes the WWP to be the first King County agency to implement such a pilot program. The Plan outlines the goals to be accomplished, schedules, conditions, and a monitoring program. The Plan is also the vehicle by which I hope to achieve the cost savings in partnership with employees that I outlined in Motion 2001-0102 relating to energy issues and the sewer rate.

On June 27 2000 we provided the Management, Labor and Customer Services Committee of the County Council a briefing on the goals and objectives of the Productivity Initiative. As a result of the enthusiastic support during the briefing and leadership provided by Councilmembers Kent Pullen and Larry Gossett, the WWP developed the Productivity Initiative Pilot Program Plan.

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

- Use private sector management and operational techniques to reduce costs, be more efficient and improve the services of the WWP.

- Increase accountability and define how the WWP uses the public wastewater rate funds.
- Allow for additional opportunity for labor and management to work together.
- Create an incentive program for employees to make process improvements and 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 operated utility in 10 years.
- Demonstrate King County's willingness to respond to increasing public demand for evidence that government services are being delivered as cost-effectively as possible.

Just as we did in the Transit operations, we have identified some savings from reducing expenditures. However, this Pilot Program goes farther by working in partnership with labor to identify long-term changes in business practices that are more cost effective and efficient. These cost savings will be reflected in the revised wastewater rate. Implementing the Pilot Program will provide savings to the public by minimizing increases in the operating budget while also meeting growth demands. Savings do not yet include the capital budget. The WWP commits to returning in October 2001 with a plan to identify savings for the capital budget as well.

The Productivity Initiative Pilot Program Plan defines the WWP's scope of service, key policy drivers, assumptions for major costs that influence the budget, and target budget figures for the next 10 years. The Plan defines clear service expectations and commitments (such as meeting permit requirements and the growth needs of the County) for what King County ratepayers will receive from the WWP. The Plan will identify expected future costs and assumptions that influence those costs. The Plan's financial targets are based on business planning strategies prepared by the WWP.

The WWP's Productivity Initiative identified a number of changes to improve the business of operating King County's wastewater program. The key elements in the approach to implementing the Pilot Program are summarized below:

1. A business plan for the WWP. Employee teams developed individual business plans that focused on efficiency measures in five functional areas: treatment, conveyance, administration, capital systems, and laboratories. Implementing many of the strategies contained in these plans would result in savings of about \$81 million dollars in the operating budget over the next 10 years. (Note: About 16 percent of these estimated savings are a result of shifting \$13.7 million from the operating to the capital budget as the WWP refines accounting practices. Also, these cost savings do not take into account the recent unanticipated steep rise in electrical costs.) Consultants have independently confirmed that the strategies and estimated savings are consistent with many private sector operations. These five plans are being integrated into one strategic guidance document for use by the WWP to outline necessary changes over the next 10 years. It will contain the

actions, timeframes and accountability for organizational change, human resource investments, and technical changes to pursue.

2. Ten-year target budget commitment. The Pilot Program contains a year-by-year budget goal for reducing costs based on the 2000 operating budget. The commitment to reduce costs only applies to those WWP core elements of the Wastewater Treatment Division's overall budget. Core elements of the WWP comprise about 76 percent of the budget, and include operations, maintenance, biosolids, laboratory, industrial pretreatment, administration, capital design and construction, and facility planning. About 14 percent of the budget is for King County support services (such as fleet, payroll) and the remaining 10 percent is spent on other policy directives and water-related programs (such as programs funded by "Culver funds").

Each year the target forecasted budget would be adjusted for factors that influence costs that are beyond the control of how the system is operated or managed. These yearly budget goals include assumptions for key expenditures that must be reviewed for reliability. For example, the current year-by-year target savings include the year-2000 budget assumptions inflated by 3 percent. If the inflation rate, or the cost of a commodity purchased (such as electricity) is not within the current assumptions, the base figures and the budget target would be adjusted to accommodate new information. The Pilot Program plan will define very clearly the cost factors in the budget that are subject to change but are beyond the control of how the system is operated, and will include a process for ensuring oversight by the Council and the Executive's Office.

3. Productivity Incentive Fund. An incentive program is a key element in driving employee investment in positive change. The Gainsharing program was successful in reducing costs in past years, but it applied only to a portion of the WWP. The proposed incentive program would apply to all WWP staff and will replace the current Gainsharing program. A fund would be established that accumulated savings achieved greater than the projected year-by-year budget target. Therefore, the incentive program would not accrue funds until the budget goal was achieved. Beyond that achievement, it is proposed that 50 percent of savings are retained by King County to further reduce rate hikes, and 50 percent are placed in an employee Productivity Incentive Fund. This fund would be reviewed regularly by an independent auditor. Fund uses would be determined by a committee comprised of management, labor and employees, but could be used for annual pay outs, training, awards, and a reserve fund. The fund will also be used to bridge the gap if the WWP does not meet its adjusted annual budget targets.
4. Linkages to labor agreements. The Productivity Initiative Pilot Program is a partnership between management and labor. The labor-approved contracts for Service Employees International Union Local 6 and the Teamsters Local 117,

support the Productivity Initiative and reference the Pilot Program. The Washington State Council of County and City Employees also has indicated agreement with the goals and objectives of the Productivity Initiative. The proposed contracts for Locals 6 and 117 contain agreement by the unions to work with management to meet the target savings, including meeting the target savings through attrition of employees over time rather than involuntary layoffs. Efficiencies must be made before any funds are placed in the Productivity Incentive Fund. Proposed elimination of the existing Gainsharing program and inclusion of the Productivity Incentive Fund are outlined in the contracts.

5. WWP obligations and role for County government. The WWP will not meet its targeted budget reductions by lowering its standards for environmental protection or ignoring its responsibilities to be a "good neighbor" (that is no reductions in expenditures for odor control). The Plan will include operational and management commitments for the WWP that will be upheld as the Program makes changes to operate more like a business. These include complying with all applicable state and federal regulations and permits, meeting system expansion needs as planned for in the Regional Wastewater Services Plan, and meeting the current Combined Sewer Overflow compliance schedule. The WWP has target goals for effluent that will be met, with penalties paid for out of potential contributions to a Productivity Incentive Fund, if these goals are not met.

The Pilot Program Plan assumes support from County government in helping the WWP meet the goal of being the best publicly operated facility in five years, and competitive with privately run facilities in 10 years. The WWP will need support on strategies for reducing staff through attrition and other separation incentives, maintaining the utility as a publicly operated program, developing service agreements with County support agencies, and compensating non-represented employees in a fair and equitable manner. Recognizing that circumstances and assumptions change over time will require support in reviewing assumptions and target goals as new information is developed.

6. Links to County policy. Success of the Productivity Initiative and the Pilot Program Plan are linked to some changes in County policy. The Plan calls for removing certain limitations on expenditures and aggressively holding the WWP to a "bottom line." Two examples of these limitations are the County's limitation on wage scales to 50 percent of the local market median, and the ordinance requirement that a private sector firm complete construction management projects over \$10 million. Other proposed changes to County policy in the Plan include applying the Productivity Incentive Fund to all employees, not just represented employees, streamlining County procedures for "design-build" construction processes where feasible, and possibly delegating certain personnel rules to the WWP from the Office of Human Resources Management. Any exemption would

not apply countywide, but only to the WWP in terms clearly understood by everyone.

7. Service agreements with other County agencies. The purpose of these future agreements with support agencies (such as the Fleet Administration Division, Department of Finance, and Office of Human Resources Management) is to ensure cost-efficiency and certainty for a set level of support services. The agreements between the service provider and the WWP will outline the service costs and process improvements both agencies can make to improve service, a timeframe for ensuring actions are taken, and avenues for constructively resolving disputes.

This Plan establishes a direct line of accountability to the Division Manager for the expenditure of wastewater funds that are under the WWP's control. It does not address how the other funds are spent, although we expect over time to refine costs for support services as service agreements are developed. As noted, some changes to County policy will be proposed to implement this Plan. I am requesting these changes in return for a commitment to meet a "bottom line" expectation and save ratepayers' money.

Thank you for considering this Pilot Program Plan. This innovative approach to managing and delivering wastewater services holds great promise for other County programs. On behalf of our ratepayers, I look forward to working with you and the King County Council in implementing this pilot program.

Sincerely,

Ron Sims
King County Executive

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Enclosures

cc: King County Councilmembers
ATTN: John Chelminiak, Chief of Staff
Shelley Sutton, Policy Staff Director
Anne Noris, Clerk of the Council
King County Department Directors
Pam Bissonnette, Director, Department of Natural Resources (DNR)
Don Theiler, Manager, Wastewater Treatment Division (WTD), DNR
Nancy Hansen, Manager, Water and Land Resources Division, DNR
Mark Isaacson, Senior Project Administrator, WTD, DNR