



CITY OF ATLANTA

CITY OF ATLANTA
AUDIT COMMITTEE

68 MITCHELL STREET, SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: 658-6077

OFFICE OF CITY INTERNAL AUDITOR
LESLIE WARD
City Internal Auditor
lward1@ci.atlanta.ga.us

W. WAYNE WOODY, CHAIR
HENRY A. KELLY, VICE CHAIR
JOHNNIE L. CLARK
MAYOR SHIRLEY FRANKLIN
COUNCIL PRESIDENT CATHY WOOLARD

MEMORANDUM

DATE: February 11, 2003

TO: President Cathy Woolard and Members, Atlanta City Council

FROM: Leslie Ward

SUBJECT: Review of Competitive Business Plan for New Bureau of Water

The attached report presents the results of a limited review of the Bureau of Water Competitive Business Plan conducted at the request of Council President Cathy Woolard and Councilmember Clair Muller. The review was not an audit but rather an assessment of key assumptions that underlie the plan, as well as key risks and how the plan addresses them.¹ The plan's financial estimates are for operations only. An overall assessment of financial condition would also look at revenues and capital investments for the water system. This report is intended to facilitate Council oversight, assist executive branch decision making, and provide added assurance to the City's water service customers during the mobilization period. The business plan and this review will be discussed in today's work session. Please feel free to contact me with any questions about the report.

c: Mayor Shirley Franklin
Citizen members, City of Atlanta Audit Committee:
Wayne Woody, Chair
Henry Kelly, Vice Chair
Dr. Johnnie Clark
Lynette Young
Greg Giornelli
Jack Ravan
Chris New
Linda DiSantis
Rick Anderson

¹ I had limited involvement in scoping the work of the consultants who assisted Department of Watershed Management staff who developed the plan. My involvement consisted of reviewing an early draft of the plan and discussing areas in which the consultants could focus their assistance. I also provided City historic and contract-operated water service expenditures that were compiled by the audit staff. With a few adjustments noted in this review, the 1997 and 2001 expenditures cited in the business plan match those in the appendix of the January 2003 audit report on City savings under contract operation of the water system.

Introduction

The business plan describes the proposed operation and management of the City's water system under a new Bureau of Water (the "Bureau") in the Department of Watershed Management (the "Department"), to be established upon the dissolution of the City's agreement with United Water, the contract operator of the system since 1999.

The business plan addresses staffing and organization, customer service, performance measurement, costs, and contracting under the new Bureau, both during the mobilization year and for ongoing operations. Our review considered each of these five aspects of the plan.

Conclusions

Overall staffing. Staffing for the new Bureau of Water is difficult to compare with other water utilities without detailed comparison of functions, organization, and other factors. The staffing plan includes a small percentage of administrative staff but contemplates that the Bureau will receive support from the Department of Watershed Management and other City departments. We are unable to draw a conclusion about the overall adequacy of the proposed staffing level. However, the staffing plan is based on sound operating knowledge, considered key staffing risks, and appears adequate to meet 24-hour coverage at the required levels without excessive overtime, if management carefully schedules vacations and controls unscheduled absences.

Customer service staffing. The business plan proposes several customer service initiatives designed to improve responsiveness and efficiency. These proposals appear to have merit but will take time to implement, so their benefits may not be fully realized in the mobilization year. Innovations such as extended call taking hours should be tested to include both evening and weekend hours. Customer service staffing may prove to be low, but cross-training staff in related functions may provide flexibility and additional resources when needed.

Operating costs. The business plan estimates direct operating costs based upon reasonable assumptions. Personnel costs are estimated generously by budgeting all positions at the tenth step, which provides some leeway in the event that staffing levels prove too low in customer service or other areas. The addition of administrative and indirect costs outside the Bureau, plus ongoing costs for the treatment plant operated jointly with Fulton County, yield an operating cost estimate of about \$49 million, compared to about \$47 million for contract operation.

Transition costs. Additional first-year or mobilization costs should also include \$9.1 million in transition payments to United Water and an unknown amount in employer pension contributions to match the contributions of returning employees who elect to get pension credit for their service with United Water. These costs should be offset to some extent by receipt the net payment of \$5 million from United Water to settle legal claims, as well as the delay in most of the new Bureau's personnel costs until April 29 or later. We estimate that the net effect of these changes reduces transition costs from the business plan estimate of \$10.4 million to about \$7.7 million, before the additional pension contributions.

Recognizing the uncertainty surrounding some of the cost estimates, the Bureau and Department should monitor expenses against the business plan estimates and make periodic reports to the administration and City Council throughout the rest of this year.

Contracting. The combination of contracting strategies proposed for the mobilization year seem appropriate under the circumstances. These include assuming some contracts that were held by United Water, entering into short-term emergency contracts, and using existing City contracts where possible. The Bureau may be able to reduce the costs of some contract services in the long run as it engages in competitive long-term procurement. The Bureau should also consider obtaining services from City staff where “managed competition” between City and private providers is feasible.

Performance measures. The initial performance measures included in the business plan provide a reasonable starting point for a performance scorecard for the Bureau. As a full scorecard is developed during the coming year, the Bureau should emphasize clear definition of measures and set goals for the level of performance to be achieved for each measure.

Analysis

- **Staffing: What assumptions provide the basis for proposed staffing levels?**

The business plan proposes a staff of 346 positions, about 15 percent more than the estimated 302² people employed by United Water-Atlanta. Because the City has questioned the adequacy of staffing under contract operation, it is especially important that staffing of the new Bureau be sufficient.

Over 90 percent of Bureau positions are assigned to functions directly involved in supplying water, ensuring water quality, and providing related customer service and technical support. Exhibit 1 shows the proposed distribution of Bureau staff among the various divisions.

Exhibit 1. Proposed Bureau Staffing by Division		
Division	Positions	Percent
Office of the Director	3	1%
Administrative Services	28	8%
Customer Services	49	14%
Distribution	124	36%
Operations	62	18%
Plant Maintenance	47	14%
Technical Services	16	5%
Water Quality	17	5%
Total Staff	346	100%

Source: Competitive Business Plan

Of the 31 positions assigned to the Bureau director’s office and the administrative services division, 12 are secretaries who are pooled to provide support to all other divisions. The Bureau’s proposed staffing also assumes administrative support from the Department of Watershed Management and other City departments. These staffing issues are discussed in the review of costs and financial estimates in the business plan.

² United Water also reports using about 33 temporary personnel, some in fairly substantial positions, such as crew chief. It is impossible to determine from the documents provided how many of the temporary personnel are substituting for full-time personnel who are on leave.

Data from water utilities in other cities suggests a wide range of staffing levels and functions. We identified water systems comparable to Atlanta in numbers of accounts, population, and area served, with staff sizes ranging from below 300 to over 500. Many variables affect these numbers, which we could not investigate within the time constraints of this review. As a result, we cannot make valid comparisons among overall staffing levels or draw a conclusion about the overall adequacy of the proposed staffing level.

Management does acknowledge that the size of the Bureau staff may prove to be too low in some areas. We agree with their premise that it is preferable to begin operations with the minimum needed, continuously monitor results, and request additional staff only when the need can be documented. In addition, transition cost estimates should allow for hiring additional temporary staff or using contract services if specific needs arise.

Shift scheduling also affects the number of staff needed to operate. Twenty-four-hour operations with continuous staffing requirements need enough people to cover scheduled days off, vacations, and a reasonable number of unscheduled absences such as sick leave. If shift scheduling is based on unrealistic assumptions about attendance, then overtime will increase.

The business plan sets a goal of limiting overtime to 7 percent of salaries, about one-half of the former Department of Water's historic average. The proposed shift schedules appear to accommodate a standard number of absences without requiring overtime. In addition, the staffing plan assumes cross-training of staff in related functions, which should increase flexibility in covering absences. However, Bureau management must carefully schedule staff vacations and control unscheduled absences if it is to meet its goal of keeping overtime low. Overtime should be monitored to evaluate the reasons for its use, and to determine when it is more cost effective to hire additional staff than to continue to pay overtime.

Management of the new Bureau developed the organizational structure and staffing plan based on operational experience, review of historical workload, and goals of increasing both customer service and cost-effectiveness. While we are unable to draw a conclusion about the overall adequacy of the proposed staffing level, interviews with key staff and consultants who assisted them with the plan indicate that the staffing plan appears to be based on sound operating knowledge and to take into account key staffing risks. Staff qualifications are addressed by identifying licensure and certification requirements for the new positions. Financial estimates in the business plan include funds for training. Several features of the proposed compensation and benefits package are aimed at attracting and retaining the most qualified applicants, with current United Water employees receiving first consideration.

- **Customer Service: Are proposed service levels and improvements realistic? Is the staffing level reasonable for the service levels and standards?**

The business plan describes several initiatives to improve customer service and increase responsiveness to complaints, including extended call center hours and more convenient scheduling of repair visits. These and other initiatives are clearly designed to address issues that have caused customer concerns. Further, operational plans for the customer service unit include several features designed to improve effectiveness and productivity, such as cross-training for meter readers and call

takers, and coordination between repair crews and meter reading crews. The following table lists proposals and what they are intended to accomplish.

Exhibit 2. Proposed Customer Service Features	
<u>Proposed Service Initiative</u>	<u>Desired Improvement</u>
Extend hours for customer service calls and repair crews	More convenience for customers; faster response to complaints; less overtime
Take leak reports and service complaints over the Internet	More convenience for customers
Implement "first and last call" policy; give confirmation numbers for complaints	Track complaint resolution and provide status information to customers
Schedule service calls at request of customers	More convenience for customers
Improve preventive maintenance; issue credits to customers with discolored water	Eliminate boil water advisories in normal operating conditions; improved customer service
Study monthly budget billing	More convenience for customers; improved collections; improved cash flow
Survey customers within first 6 months	Evaluate customer satisfaction

Source: Competitive Business Plan

These initiatives will take time to implement, and their benefits may not be fully realized during the mobilization year. Knowledge of workload, such as call volumes and field service calls, is limited. Details of how some features will be implemented and how information systems can be modified to support them have yet to be worked out.

The plan for extending call taking hours will have customer service representatives and repair crews working two shifts, so that customers can call (or walk in at the 14th Street Customer Service Center) from 8:00 a.m. until 11:00 p.m. The added hours are expected to shift some calls into the evening hours. This is innovative and may be more convenient, but it is untested, and whether staff scheduling will match call volume and other workload is uncertain. In our contacts with other water systems, we have not yet located one with customer service hours later than 7:00 p.m. We encourage the new Bureau to experiment with the evening schedule, as well as with weekend hours, before determining the best schedule to meet customer needs.

Bureau management acknowledges that initial customer service staffing may be at the low end of what will be needed. The call center has about the same staffing level that United Water appears to have had and that the City had before the agreement. The number of meter readers is at the low end of a group of cities with comparable workloads from which we could get information, as shown in Exhibit 3.

Exhibit 3. Meter Reading Activity and Staff, Selected Cities

<u>City</u>	<u>No. of Accounts</u>	<u>Meters to be read monthly^a</u>	<u>No. of Meter Readers</u>
Atlanta	149,000	82,500	10
Arlington, Texas	94,000	94,000	11
Kansas City, Missouri	155,000	82,500	18
Portland, Oregon	162,600	66,767	12
Virginia Beach	126,100	not available	14

^a This varies depending on how often meters are read for different types of accounts. For example, Atlanta reads commercial meters monthly and residential meters bimonthly; Arlington reads all meters monthly, and Portland reads residential meters quarterly and commercial meters monthly.

Sources: Audit staff contacts with water department personnel in other cities

Cross-training is intended to increase flexibility and productivity in the customer service area. When implemented, meter readers would be able to handle calls, and leak crews would also read meters. The Bureau will consider outsourcing the meter reading function if those staff proves to be needed in the call center. Overall, the customer service workload will need to be monitored carefully to identify complaint backlogs, delayed response times, and other outcomes the new Bureau pledges to improve.

- **Costs: Are transition costs and ongoing operating costs based on realistic assumptions and estimates? Are there additional financial impacts that should be identified?**

The business plan estimates ongoing Bureau operating costs of about \$41.2 million plus about \$10.4 million in additional “start-up” and transition costs in 2003. This is compared to an estimate of \$40.8 million for contract operation of the water system in 2003.

Ongoing operating costs. The plan’s financial estimates for ongoing operations appear to be based on adequate to generous assumptions, given the information available when the plan was developed. For example, personnel costs are estimated generously by budgeting all positions at the tenth step and benefits at 45 percent of salaries. Management expects average salaries to be lower, but had limited information about United Water salaries. The benefit percentage is higher than that normally used in budgeting, but not unreasonable considering that the budget percentage will increase in 2003.

The proposed option for former City water service employees to rejoin the General Employees Pension Fund will have an impact on the plan’s unfunded liability and, therefore, possibly will increase future City contributions; but the amount of this liability will require actuarial analysis to estimate.

The major uncertainties regarding operating costs are those related to information systems. The City plans to assume United Water’s contract for support of C-Star II, the proprietary customer information and billing system now in use, for about two years. This expense is estimated at \$600,000 annually, plus additional support during the transition. Total expenses for information systems support are estimated at about \$1 million, after the transition or mobilization year. More specific information from United Water about C-Star support costs could change this estimate.

Future operating costs could also be affected by the cost of federal security mandates for water distribution systems. Management has had discussions with federal officials and expects that these requirements could eventually involve substantial additional costs, but there is not yet enough information to estimate them. It should also be noted that new security mandates would affect operating costs for the system whether it is managed by a contract operator or the City directly.

Additional administrative and indirect costs. The financial estimates include the Bureau's direct costs only, based on the principle that these are the costs within the control of Bureau management. This decision is understandable from the standpoint of Bureau management and facilitates comparison with the City's contract-operated costs, but it leaves out costs that are part of total City costs for the water system. The major categories are direct administrative support from other City departments and indirect cost allocation. We expect these costs to increase from about \$3 million a year under contract operation to about \$4.5 to \$5 million.

Part of the increase comes from the 11 administrative positions created in other departments in the personnel ordinance for the new Bureau of Water.³ In addition to the positions charged directly to the Water and Sewer Fund, indirect costs allocated to the new Bureau will increase because of the addition of City employees and transactions. The City will handle payroll and benefit administration, recruiting and hiring, training, and labor relations. The City will also handle procurement, contracting, and payment transactions.

In addition, a portion of Department of Watershed Management costs should be allocated to the Bureau of Water. This represents executive and financial management, public and intergovernmental relations, and other support the Bureau will receive. When departmental and other administrative costs are added, plus the City's costs for the treatment plant operated jointly with Fulton County, we arrive at ongoing operating and support costs of about \$49 million, compared to contract operated costs of about \$47 million. As shown in Exhibit 4, the major difference is in City administrative and indirect costs.

³ Support positions in the personnel ordinance for the new Bureau include two in Personnel, four in Procurement, and five in Finance.

Exhibit 4. Additions to Business Plan Operating Expenses

<u>Type of Expense</u>	<u>Self-Operated</u>	<u>Contract-Operated (thousands)</u>
Business Plan Estimate	\$41,150	\$40,827 ^a
North Area Treatment Plant	2,534	2,534
Administrative Support:		
Dept. of Watershed Management ^b	700	700
Other City Departments	1,037 ^c	563 ^d
Indirect Cost Allocation	<u>3,620^e</u>	<u>2,368^f</u>
Estimated Operating Expenses	\$49,041	\$46,992

^a The business plan shows an estimate of \$40,668 on page 20. We added sludge disposal costs that were not available when the plan was prepared.

^b The Office of the Commissioner has an estimated 2003 budget of about \$2.1 million, of which we estimate an allocation of one-third to the Bureau of Water.

^c Includes positions currently charged to the Water and Sewer Fund, plus those added in the personnel ordinance, allocated to the Bureau of Water at 35 percent.

^d Includes positions currently charged to the Water and Sewer Fund, allocated to the Bureau of Water at 30 percent.

^e Estimated by adjusting 2001 indirect cost allocation for water and sewer fund for inflation at 2.1 percent annually, and allocating 35 percent of this amount to the Bureau of Water.

^f Actual 2001 allocation to the former Department of Water, inflated at 2.1 percent annually.

Sources: Competitive Business Plan; Departments of Finance and Watershed Management; Personnel ordinance for new Bureau of Water; Audit staff analysis

Transition costs. The business plan contemplates additional first-year expenses of \$10.4 million in the areas of maintenance and repair, legal and security costs, information systems support, professional services, and other contracts or outsourced services. These costs are anticipated because of needed repairs to comply with consent orders, engineering and design work for additional repairs, technical assistance with the assumption of information systems, and other one-time costs.

Transition cost estimates should also include two additional categories, although the cost of one of them is unknown. If, as proposed, former Department of Water employees re-enter the general employees pension plan and receive credit for their four years of employment with United Water, then the Water and Sewer Fund will also be required to pay the City's pension contributions for 1999 through 2002 for these employees.

Depending on how many employees return (Bureau management expects between 150 and 200) and choose to fund their share of the service credits, the City's share could amount to several million dollars. The impact of this expense on the Water and Sewer Fund could be lessened by spreading the employer contribution over the same 5-year period that employees are afforded. Actuarial determinations of these amounts will be needed, as well as precise information about the numbers of returning employees and the pension options they will choose.

In addition, payments to United Water during the transition period have now been established. These payments will total about \$9.1 million for O&M fees, pass-through costs, and staff retention bonus. (This assumes that payments to United Water for additional services and repairs in progress will fall within the business plan estimates for repairs and other services.) Depending on how quickly the new Bureau is able to fill positions, the transition payments may increase first-year costs, but they are also offset by the net legal settlement of \$5 million in the City's favor. Exhibit 5 shows transition operating and support costs of about \$19.6 million, with offsets of \$11.9 million, for a one-time cost increase of \$7.7 million, plus one-time pension contributions that have not yet been estimated.

Exhibit 5. Additions to Business Plan Transition Expenses

<u>Type of Expense</u>	<u>Estimate (thousands)</u>
Business Plan Estimate	\$10,482
Transition Payments to United Water ^a	<u>9,100</u>
Subtotal	\$19,582
Offsets:	
Partial-Year Personnel Expenses ^b	(6,900)
United Water Settlement Payment (net)	<u>(5,000)</u>
Subtotal	(\$11,000)
Estimated Transition Expenses	\$7,682
Plus City Pension Contributions for United Water Service Credits (up to 4 years)	Unknown (needs actuarial analysis)

^a Includes O&M fees of about \$8.3 million, estimated pass-through costs for insurance and sales tax of \$500,000, and employee retention bonus of \$300,000.

^b Assumes Bureau of Water management positions filled for the full year and full staffing for 6 months, with about 95 percent staffing for 8 months.

Sources: Competitive Business Plan, Draft Transition Memorandum of Understanding, and Audit staff analysis

Additional monitoring needed. While we conclude that the business plan estimates are reasonable under the circumstances, we strongly recommend that the Mayor’s administration and the City Council monitor actual financial results throughout the transition period. Given the uncertainty surrounding several implementation issues, high estimates are preferable at this point. However, the new Bureau and the Department should make every effort to realize savings wherever possible and treat this plan as a ceiling.

Administrative costs in other departments should also be carefully watched. If efficiencies can be gained in the City’s core processes, it will not only reduce costs in the general fund, but also benefit water and sewer customers as well as other enterprise funds. The Bureau and Department should monitor expenses and staffing levels against the business plan estimates and make periodic reports to the administration and City Council throughout the rest of this year and in 2004, the first full year of operations after mobilization.

- **Contracts: What alternatives have been considered for handling non-core services in the transition period? What long-term plans for these functions will be considered?**

The new Bureau of Water proposes to obtain a number of specialized and support services through contracts. Many of these services were provided by United Water or other vendors during contract operation of the water system, and some were provided through contracts during City operation before 1999 as well. Several contracts incorporated in the operating plan and financial estimates for the new Bureau are shown in the following table.

Exhibit 6. Selected Contracts Included in Business Plan

<u>Contract Service</u>	<u>Provided During UW Contract By:</u>
Customer Information and Billing System	Included in United Water O&M agreement
Fleet Management	Included in United Water O&M agreement
Uniforms	Included in United Water O&M agreement
Grounds Maintenance	Included in United Water O&M agreement
Custodial Services	Included in United Water O&M agreement
Laboratory Testing	Included in United Water O&M agreement
Utility Locates	Additional service agreement with United Water
Hemphill Steam Plant Operation	Additional service agreement with United Water
Consent order repairs at two repump stations	Not applicable, but repairs would require additional contracts to complete regardless of who operates the system
Sludge Disposal	City paid directly or reimbursed United Water
Valve Box/Manhole Raising	City has annual contract

Sources: Competitive Business Plan; interviews with Bureau of Water staff and plan consultants

The business plan anticipates assuming several third-party contracts from United Water, as well as entering into emergency contracts to maintain continuity during the transition year. In addition, Watershed Management has contracts in place or under development that can be used for some items, and previous experience or knowledge from other jurisdictions about obtaining others. This combination of strategies seems appropriate under the circumstances.

Considerable uncertainty remains in the area of information systems, especially for customer information and billing. The current United Water system is proprietary and is no longer marketed, but is expected to remain in place for about two years before being replaced. The City's old system is not Y2K compliant. City information technology staff will support the Bureau's systems, which will remain in place as United Water has had them.

During that time, resources must also be devoted to evaluation of needs and alternatives, followed by system selection, acquisition, and implementation. The business plan does not include a specific estimate for a new system because it would be a capital investment. However, it does include transitional information technology expenses of \$900,000 - plus \$500,000 for general transition consulting, some of which may support information technology planning - in addition to the cost of maintaining the current contract. Transition costs also include additional implementation of Maximo, the work order management system that is also used in other parts of Watershed Management. It has not yet been fully utilized and needs additional data to support improved management of asset maintenance and repairs.

In the longer run, the plan assumes continued outsourcing of such support services as fleet management, grounds maintenance, and custodial services. This strategy should include consideration of City provision of services that it can provide, or use of City annual contracts, if these prove to be cost effective alternatives. There may be an opportunity for "managed competition" between City and private providers in some of these areas. This would depend on City support for managed competition and preparation of City staff to offer competitive proposals.

- **Performance Measurement: What additional performance measures should be considered for assessing Bureau performance? How do proposed performance standards compare to industry benchmarks?**

The performance measures listed in the Business Plan are four that Water Bureau management believes can be measured immediately. They represent areas that have been highly visible and that have caused high levels of concern among customers over the last several years. These four areas were also included in the scorecard used to measure United Water-Atlanta's performance during their contract correction period.

We found that the Bureau's initial performance measures address two of the key areas of their operations, as reflected in benchmarking research that is under way in the water industry. Exhibit 7 shows the focus of the bureau's initial measures on the key areas of water operations and customer relations.

Exhibit 7. Initial Performance Measures for Bureau of Water

Business Plan Performance Measure	Benchmarking Clearinghouse Business Area
1. Water quality problems	Water operations
2. Billing and collections	Customer relations
3. Meter reading	Customer relations
4. Out-of service fire hydrants	Water operations

Source: Competitive Business Plan; QualServe Benchmarking Clearinghouse

The Bureau plans to develop additional measures over the first year. The full scorecard should include additional measures in the above categories, as well as measures to assess business operations and organizational development. Performance measures proposed by a group of water systems are shown in Exhibit 8 below. These systems participate in a voluntary, continuous quality improvement program offered by the American Water Works Association and the Water Environment Federation. This set of measures is for illustrative purposes. We are not recommending specific measures at this time.

Exhibit 8. Performance Indicators Developed by Water Industry Benchmarking Organization

- | | |
|--|--|
| <p>1. Organizational Development</p> <ul style="list-style-type: none">• Organizational best practices index• Employee health and safety severity rate• Training hours per employee• Customer accounts per employee | <p>2. Business Operations</p> <ul style="list-style-type: none">• Debt ratio• System renewal/replacement rate• Return on assets• Planned maintenance ratio |
| <p>3. Customer Relations</p> <ul style="list-style-type: none">• Customer service complaints and technical quality complaints per 1,000 accounts• Disruption of water service per 1,000 active customer accounts• Residential cost of water and/or sewer service index• Customer service cost per account• Billing accuracy rate | <p>4. Water Operations</p> <ul style="list-style-type: none">• Drinking water compliance rate• Distribution system water loss rate• Water distribution system integrity• Operations and maintenance cost ratios• Planned maintenance ratio |
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Source: QualServe Benchmarking Clearinghouse

We also found that the performance measures included in the business plan were consistent with the types of services and functions measured by other water utility agencies. For example, almost every water utility agency that we looked at had a performance measure related to water quality, and several had one related to meter reading and/or billing accuracy. Water Bureau management provided examples of other areas of performance that they expect to include on their future scorecards, such as timeliness in repairing meter leaks.

The Bureau should also set goals or standards for Bureau achievement on each measure. Adding a rate of achievement would allow the measures to show how often (i.e., rate of achievement) the Water Bureau met their target performance for each measure. Targeted rates of achievement will depend on the Bureau's initial performance and may increase over time. For example, the proposed measure of response to water quality problems could be stated as, "We want to respond to water quality problems within 24 hours, XX% of the time," and the actual performance would state that, "We responded to water quality problems within 24 hours, XX% of the time." Further analysis can provide additional information regarding performance in a particular area. For example, in this particular instance, the average time to respond and the range of hours to respond could also be provided.

Clear definitions of measures also are important to communicate what measures really mean. For example, Water Bureau management stated that the goal for the water quality performance measure is really to *repair* the problem within 24 hours, but the performance measure, as written, indicates that the goal is only to respond within 24 hours. The intent of the measure sets a higher standard than the written definition would suggest. It could be much easier to respond with a phone call than to make a site visit and complete repairs within 24 hours.

Recommendations

1. The new Bureau of Water should experiment with both weekend and evening hours for customer service calls and walk-in services to determine a feasible schedule that best meets customer needs and the Bureau's workload.
2. The City and the Board of the General Employees Pension Fund should explore gradual payment of City pension contributions to match employee contributions for service credits for their years of United Water employment.
3. The new Bureau of Water and the Department of Watershed Management should make periodic reports on expenses compared to the business plan estimates and financial goals, e.g., revenue collections and overtime use, as well as on staffing compared to workload. The reports should include updated projections of the estimated annual operation and maintenance costs and staffing levels.
4. The new Bureau of Water should consider City provision of outsourced services where it is cost effective to do so and opportunities to explore managed competition exist.
5. The new Bureau of Water should ensure that proposed performance measures and future performance measures clearly state what will be measured and how it will be measured, and that all performance measures include a goal for achieving the performance target.

APPENDIX
Contract Estimates and Other Components of Financial Estimates for New Bureau of Water

Cost Item	Ongoing (\$000)	Transition (\$000)	Comment
Personnel expenses	21,693	Same	346 positions at Step 10, including 10 existing and 8 reclassified; benefits at 45% of base salary; overtime at 7% of base salary; performance incentive bonus pool of \$350,000.
Utilities	8,778	Same	Electricity, natural gas, water and sewer charges for bureau facilities. The bureau expects to reduce consumption through better power management when the Hemphill Plant converts from steam to electricity, but price increases are expected to offset the savings.
Supplies	1,650	Same	Inventory, parts, tools, etc. The bureau expects to maintain a smaller inventory than historic expenditures indicate, to avoid obsolescence and reduce carrying costs.
Service, Repair & Maintenance Contracts	2,910	3,810	Ongoing amount based on annual payments to United Water for material capital repair and replacement (MCRR) services. Transition includes additional amount for catch-up repairs and maintenance.
Public Works and Waste Disposal Services	250	Same	Tipping fees and street cut restoration.
Professional Services	3,774	6,364	North Area treatment plant, contract for C-Star II support, contract for utility locate inspections, lab testing fees, annual training. Transition includes additional training funds, information systems and other consulting services.
Information Services	250	1,100	Ongoing support from Department of Information Systems (internal service fund). Transition includes additional internal and external support.
Motor Equipment	1,096	Same	Maintenance and fuel for a fleet of 159 vehicles, estimated at historic Bureau of Motor Transport cost of \$6,896 per vehicle. The bureau plans a smaller fleet than United Water or the former Department of Water and expects actual cost per vehicle to be lower under a fleet management contract.
Legal Services	0	950	Transition legal services provided by outside counsel. Ongoing legal services provided by Department of Law through water and sewer funded positions and indirect cost allocation.
Emergency	0	900	Contingency for unanticipated transition and mobilization expenses.
Security	0	664	Transition security provided by contract, 24-hour coverage for 120 days. Ongoing security provided through surveillance equipment monitoring.
Outsourced Services	3,282	3,910	Contracts for bill preparation and mailing, collection agency, sludge disposal, grounds maintenance, custodial services, valve box/manhole raising, meter testing and calibration, metro area and state assistance agreements and memberships. Transition also includes contract for staffing of Hemphill steam plant until opening of new facility.
Consent Order Repairs	0	3,000	Repairs at Northside and Adamsville repump stations to remedy discolored water and boil water advisories.

Sources: Competitive Business Plan; Audit staff analysis