

September 2012

Detroit Water and Sewerage Department

The Case for Change

Organizational Optimization

The Perfect Storm

INCREASING



DECREASING

- Citizen expectations
- Capital investment needs
- System Debt
- **Personnel Costs**
 - Health Care Costs
 - Pension liabilities
 - Productivity costs
- System reliability
- Support for significant rate increases
- Federal \$'s in grants or low interest loans
- Numbers of customers and sales

The affordability picture (June, 2012)

- Federal regulations gauge water services as affordable if 'bills' are less than 2% of the median annual household income.
- *Sewer bills are now consuming a higher share of income than in 2009 having risen from 2.43% to 2.64% MAHI (June, 2012)*
 - *Water bills are consuming approximately 1% of MAHI*

Financial Projections - Rates

If we do nothing more.....

- With 2% projected increases in O&M - Water revenue requirements rise cumulatively 21.5% (through 2016)
- With 2.5% projected increases in O&M Sewer revenue requirements rise cumulatively 16.6% (through 2016)

Recommend proceeding with EMA for Phase II and III

- The DWSD key issues are aligned with the EMA's Unique approach – OPT (Organization, Practices and Technology)
- EMA's approach engages employees and the organization in assessing the issues and creating the solutions
- Due diligence confirms EMA's capabilities and performance

Recommend proceeding with EMA for Phase II and III

Time is of the essence

- Contract commitments
- November 4th Order implementation
- Ability to influence the 2014 Budget and rates

Recommend proceeding with EMA for Phase II and III (deferred Phase IV)

- Maximizes near term economic benefits
- Assists moving cultural change forward
- Addresses many items in the November 4th Order
- Addresses items under discussion in the NPDES permit renewal
- No compromise on Safety or Quality

Today Presents...

- A recommended program for moving forward

September 2012

Detroit Water and Sewerage Department

*Phase II/III Proposal :
Job and Business Process
Design, IT Systems and
Outsourcing Services*

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Agenda

1. Proposal Tracks
2. Proposal Costs
3. Program Benefits
4. Schedule
5. Closing Comments (Sue McCormick)

1

Proposal Tracks

Program Tracks

1. Program Management
2. Job Design and Business Process Design
3. IT Master Plan
4. HR, Payroll and Timekeeping Systems
5. IT Systems
6. CMMS and Financial System configuration
7. Implementation of an Asset Management and Reliability Program
8. Procurement and Implementation of Outsourcing functions

Program Management (1.0)

- Program Management will coordinate activities within the seven tracks
 - Will coordinate requirements from the Job and Business Process Designs with the IT Master Plan and IT Systems implementation
 - Coordinate requirements from the Business Process Design with the CMMS and Financial Systems configuration
 - Manage communications and documentation transfer between the EMA Project Team and DWSD staff

Program Management (1.0)

- Program Management is a continuous activity throughout the project, specific tasks include:
 - Management of Time, Scope and Money
 - Project Progress Reporting
 - Staffing Levels
 - Funds Spent
 - Communication Plan and Change Management Plan

Program Management (1.4/.5)

- **Change Management**
 - Change Management Team to facilitate and sustain a culture of change in support of the program
 - Gather employee feedback to implement change management plan to address issues
- **Benefits Tracking**
 - Will generate a monthly reporting on staffing impacts
 - Quarterly Benefits Tracking data will be requested, compiled and reported for water and wastewater

Job Design and Business Process Design (2.0)

- 5 design teams;
 - Water Operations Team
 - Wastewater Operations Team
 - Field Services Operations Team
 - Technology Support Team
 - Finance, Administration and Customer Service Team
- Job Design for 32 classifications and business practice streamlining

Job Design and Business Process Design (2.0)

- Pilot Process
 - Eight weeks of Job Design
 - Team Training prior to the pilot
 - Eight Weeks of facilitated pilot implementation
- Complete at end of March 2013
- Following pilot, new Job Designs will be rolled out to the entire department

IT and Application Master Plan (3.1)

- **IT Application Plan and Review**
 - Review current applications and determine what functions and services are required
 - Define interactions and integration between applications
 - Identify security and access requirements
 - Consolidate, upgrade and replace when necessary
 - Review support requirements and service models
 - Define application matrix to address the functions
- **Application Consolidation**
 - Provide support and configuration services to consolidate or upgrade applications

IT and Application Master Plan (3.3)

- IT Master Plan
 - Define IT Services and Business Model for data interactions, user interaction and support
 - Define IT Plan and Strategies for a five year IT investment
 - Review support requirements and service models for the systems for the next five years
 - Create requirements for mobile and remote computing
 - Develop IT standards to support mobile requirements and business strategies

Payroll, Timekeeping and HR (4.0)

- Develop end user requirements define IT system requirements
- Review vendor options for the systems and IT/Hosting requirements
- Develop procurement documents and evaluate responses
- Payroll will be started immediately to meet required implementation schedule, March 15 2013
- HR system may include Learning Management Module

IT Systems (5.0) – Assessment Design and Procurement Management

4 Systems procured

- Learning Management, training, licensing and proficiency, could be a HR System component
- Hazardous Materials Management (*or MSDS*) could be a Document Management function
- Document Management, electronic storage and access of Memos, O&M Info, and Drawings. One source and version control
- Performance Management to report measurable items, according to accountability, automate reporting and make data available to all staff

IT Systems (5.0) – Assessment Design and Procurement Management

- Develop end user requirements
- Define IT system requirements
- Develop a business case for each system to compare new systems or leveraging an existing system
- Develop Procurement documents and evaluate responses
- Implementation and Data Integration Support
- Systems will support the new Business Processes and will follow the standards developed in the IT Master Plan

Computerized Maintenance Management System and Financial System Optimization (6.0)

- Implement changes required to support new Business Practices identified in the Job Design track
 - Apply reliability program to achieve 80/20 PM to reactive work split
 - Streamline the purchasing of parts and services
 - Streamline materials management and time tracking
 - Interface GIS and CMMS to better manage linear assets
 - Implement the Asset Management Program defined in the AM Track

Computerized Maintenance Management System and Financial System Optimization (6.0)

- Through workshops, identify where business processes can be optimized and generate business process recommendations
- Develop real solutions in new/updated business processes for staff's specific needs to address real life issues and challenges
 - Recommended changes to business processes will need to incorporate the overall re-organization change undertaken in the Job Designs
- Implement the new business processes in the CMMS and Financial systems
 - Provide real time metrics and data for the POMS

Asset Management Program (7.0)

- Program for Plant and In-ground assets
- Assess Current AM Practices
- Develop AM Framework
- RCM and AM Proof of Concept
- Develop Reliability Prioritization
- Define AM Plans for facilities and in-ground assets
- AM Program implementation support

Outsourcing Analysis (8.0)

- Review outsourcing in 8 areas that are not core-business functions
 - Non-repetitive lab functions
 - Rate Setting
 - Grounds Maintenance
 - Facilities Maintenance
 - Office Cleaning & Garbage Collection
 - Minor/Major fleet repairs
 - Payroll
 - Print Shop

Outsourcing Analysis (8.0)

- Analysis
 - Business Case will review expected costs and savings. A minimum threshold of 10% savings is required for any outsourcing function
 - Some functions may be bundled for further savings
- Procurement
 - Develop procurement documents for outsourcing
- Vendor
 - Vendor commitment to retain displaced DWSD employees for any new staffing requirements will be included in the proposal evaluation criteria.

Outsourcing Option (8.4)

- Outsourcing contracts can be procured through the professional services contract
 - Would allow for a single contract for DWSD
 - Management of subcontracting invoicing and approvals would be done by EMA

2.

Program Costs

Cost Proposal (10.0)

Task	Cost
Program Management of EMA Activities	\$2,186,817.00
Re-Organization Design and Implementation	\$4,200,000.00
IT Master Plan and Consolidation	\$1,000,000.00
HR/Payroll System	\$1,178,780.00
IT Systems	\$1,900,000.00
CMMS and Finance System Updates	\$3,500,000.00
Reliability and Asset Management	\$1,750,000.00
Outsourcing Analysis and Procurement	\$1,050,000.00
Subtotal EMA Professional Services	\$16,765,597.00
Outsourcing Contracts and Management	\$21,114,000.00
Subtotal	\$37,879,597.00
Contingency (20% of Subtotal)	\$7,575,919.40
Expenses on EMA Professional Services (15%)	\$2,514,839.55
TOTAL	\$47,970,355.95

Cost Proposal (10.0)

- Management tasks and expenses are identified separately
- Outsourcing option where Outsourcing Costs are paid and managed through professional services contract are included
- 20% contingency for additional or expanded scope and discoveries is included

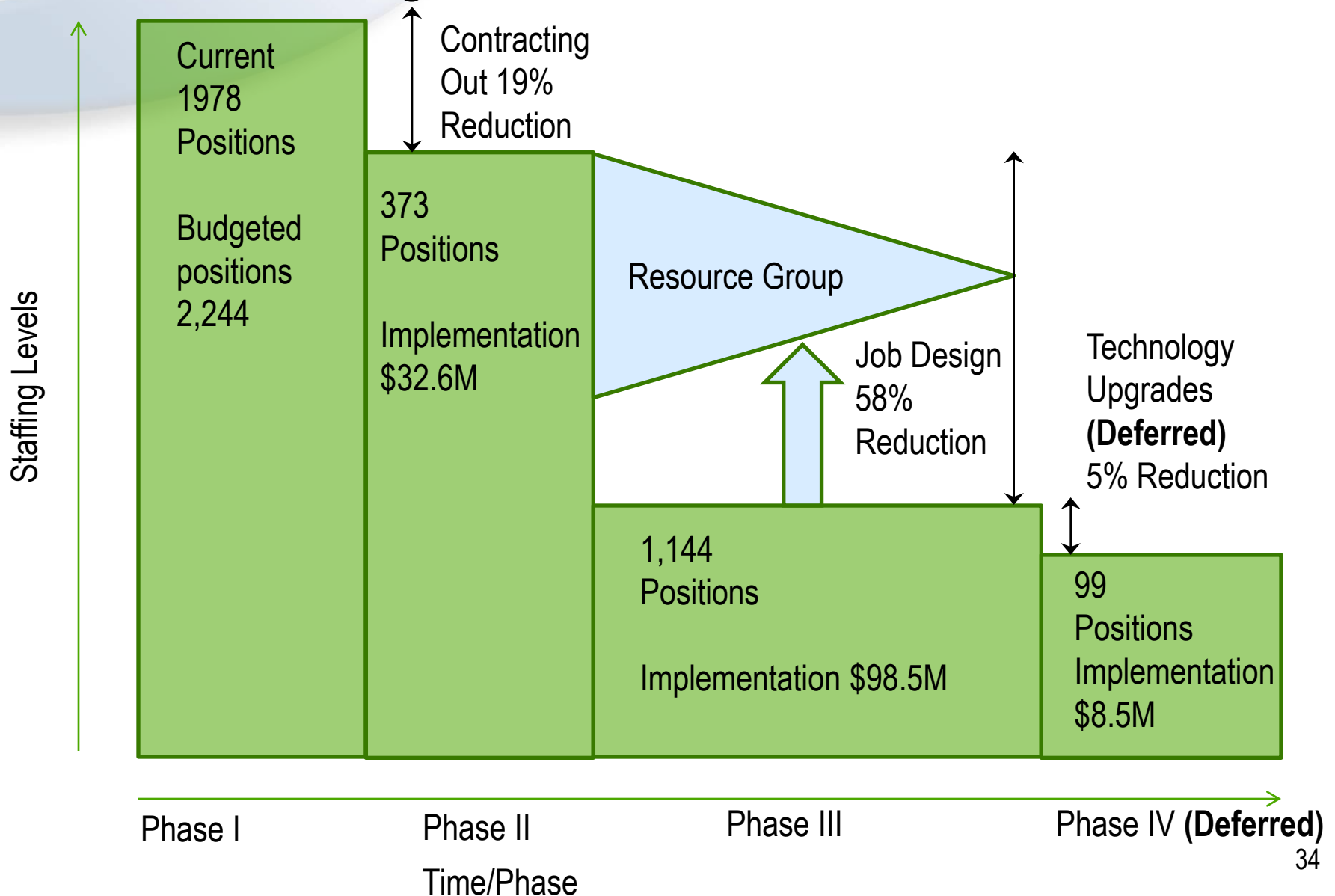
3.

Program Benefits

Benefits

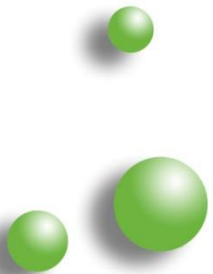
- Job Design and Business Processes
 - Program will implement the Job Designs and Business Processes allowing for targeted saving
- Outsourcing Savings
 - Program will identify and can implement Outsourcing savings
- Fleet Savings
 - Achieved through outsourcing and reduced requirements for vehicles
- At full implementation, annual savings of \$140 million are possible

DWSD Projected Staff Reductions



4.

Schedule



Schedule

- Identified start date of October 1st
- Will allow for completion of Job Design and Business Process Pilot by March 31, 2013
- Job Classifications will be available for Market Evaluation on March 31st
- Full Job Design Roll-out complete by November 2014
- 4 years of Outsourcing costs identified
- Project complete in October 2017

5.

Closing Comments

Recommend proceeding with EMA for Phase II and III

People support what they create

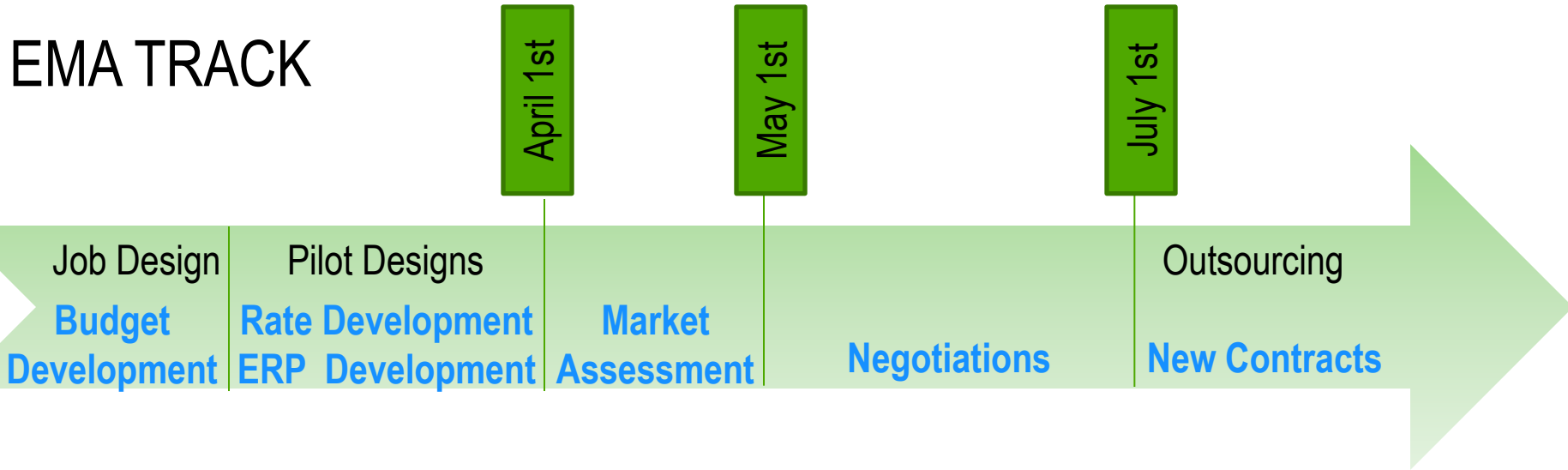
EMA facilitates the process and DWSD
remains in the decision making role

DWSD Oversight

- Committee Structure (Page 1-8)
 - Steering Committee
 - Job Design and Business Process Design Teams
 - Change Management Team
 - Information Technology Team
 - Work and Asset Management Team*
- Project Manager and Benefits Tracking

Recommend proceeding with *EMA* for Phase II and III

EMA TRACK



DWSD TRACK

Recommend proceeding with EMA for Phase II and III

Near term benefits

- Employees who are more highly qualified improves compliance assurance
- Early operational benefits
- Early savings

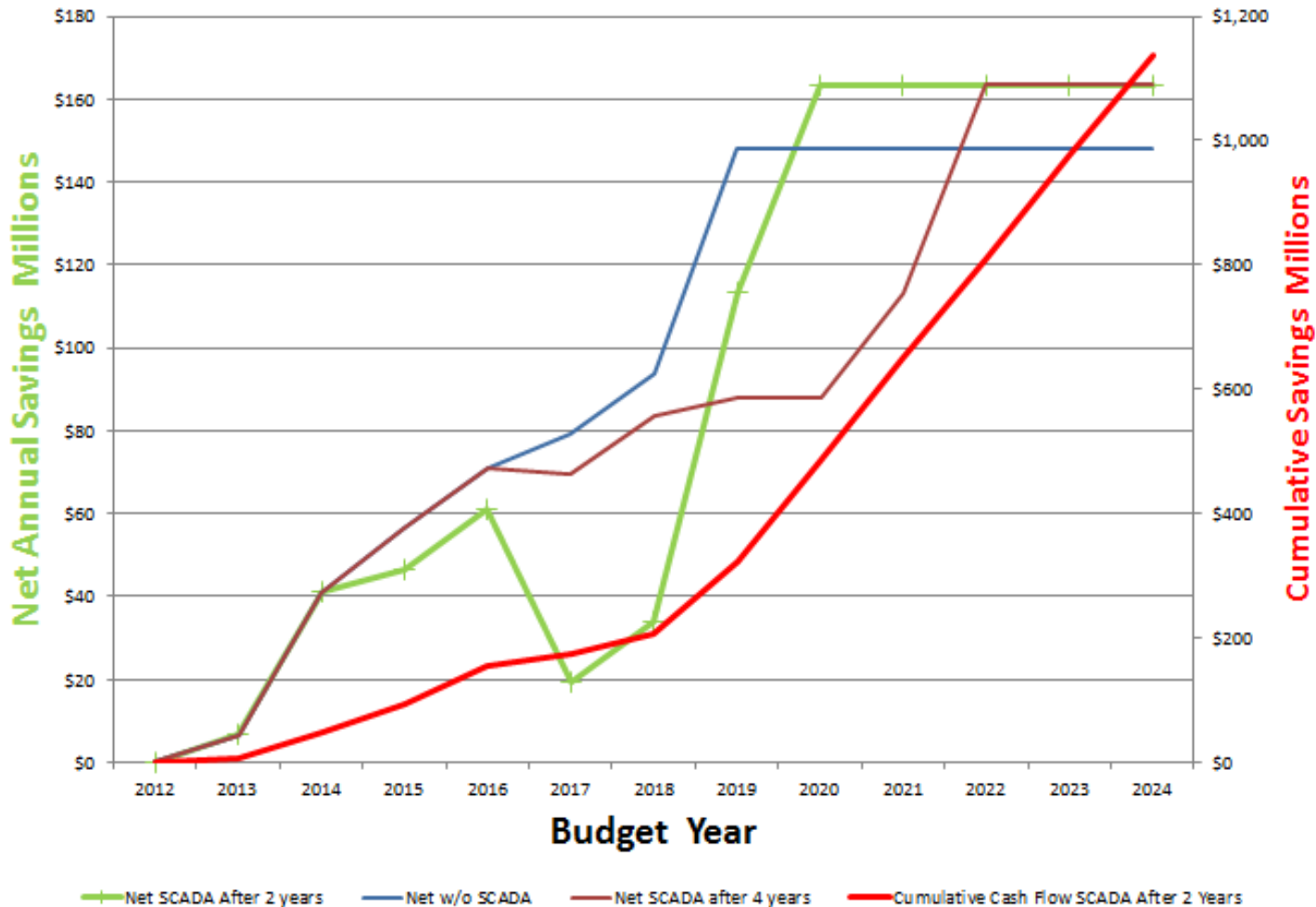
Recommend proceeding with EMA for Phase II and III

Deferring Phase IV (Automation)

- Early benefits not dependant on Phase IV
- Deferral maximizes the near term economic benefits
- Automation has a longer term pay back
- Leaves open the opportunity for competitive Phase IV proposals

Recommend proceeding with EMA for Phase II and III

DWSD Reorganization Targeted Savings



Recommend proceeding with EMA for Phase II and III

What's in it for employees

- Self directed career opportunities
- More rewarding work and associated compensation
- Organizational commitment to training and development
- Team empowerment – accountability and responsibility

Recommend proceeding with EMA for Phase II and III

Benefits to the customers

- Rate increases minimized
- Improved reliability
- Improved customer service
- Improved financial reporting
- Asset management basis for capital improvements

Recommend proceeding with EMA for Phase II and III

Benefits to the organization

- Data available for more timely and effective decision making
- Flexible staffing supports operational flexibility and compliance
- Reliable business processes
- Integrated information technology reduces time to hire, procure, train, evaluate, etc.

Commitment to Open Communication

- EMA's Communication Plan keeps the organization informed (posting on intranet)
- Management will report monthly to the BOWC on personnel impacts and issues and quarterly on financial benefits tracking
- Ability to include customer community representation on Asset Management Plan development

Commitment to minimizing the impact on employees

- Commitment to hire displaced DWSD employees will be included in the evaluation criteria for outsourcing RFP's
- Accomplish staff reduction through attrition to the maximum extent feasible given financial guidelines (TBD)
- Commitment to ERIP development
- Provide outplacement services

Outsourcing Provisions

- Focus on Detroit and Customer Based Businesses
- Employment opportunities for displaced DWSD employees
- A minimum of 10% cost savings (including contract management costs) in comparison to DWSD costs must be achieved for any RFP to be considered
- Provision for assignment to DWSD

Management Endorsement

- The entire management team has been engaged in discussions throughout the EMA Phase I assessment process
- Presentation/discussion of the assessment results occurred with the Management team, employees throughout the organization and Union Leadership.
- The Management Project Team recommends moving forward with EMA for Phase II and III.



Questions ?