

September 2012

Elected Officials Forum
September 27, 2012

James G. Fausone, Chair
Board of Water Commissioners

Sue F. McCormick, Director
DWSD



Restructured Board



Early 2011, Detroit, Wayne, Oakland & Macomb agreed to restructure the 7 member Board of Water Commissioners.

Key Provisions:

1. New clean board with 5 new members
2. Qualifications: 7 yrs exp – Regulatory Industry, Utility, Engineering, Finance or Law.
3. Board members receive compensation (\$250/meeting)
4. W/O/M nominate representatives & Mayor must appoint
5. Super majority vote (5/7) on Rates & Capital Improv. Plan
6. New Board started duties April 1, 2011

First Year Board Actions of Note



- Hired Director, COO, Chief Integrity Officer, GC
- Suspended contractors in the Kilpatrick Indictment
- Sued contractors for excessive billing
- Working Committees (Ops, Finance, HR, Law)
- First Audit of ongoing construction project
- Customer business credits in purchasing
- Elected Suburban Chair of BOWC
- 12 of 17 Collective Bargaining Agreements signed
- Organizational Management Assessment Issued!

Changes effected by Federal Court Orders to achieve long term compliance with the CWA



November 4, 2011

- **Adopts the Plan of Action**
- **New independent functions: HR, Finance, Legal, Procurement**
- **Expanded Procurement authority**

November 4, 2011

- **Separate DWSD CBAs by 7/1/12 w/o COD bumping**
- **Can outsource/subcontract**
- **Struck past practice**
- **Increase workforce flexibility**
- **WCCC , MERC enjoined from jurisdiction**
- **Unions enjoined from related grievances, ULPs or arbitration demands**

Key CBA Provisions in November 4, 2011 Order



- Director approves future dept. CBAs
- No bumping into the department
- Subcontracting/outsourcing - yes
- Discipline – 3 year
- Promotions – skill based
- Past practices – eliminated
- Overtime – skill based
- Work rules – limited
- Enjoin MERS/State court

Procurement Policy



1. Competitive Bidding
2. Use of Govt Bid Cooperatives
3. Equalization Credits

Contract Approval Levels



- Director
- Board of Water Commissioners (BOWC)
- Detroit City Council

Big Financial Picture ***Income Statement***



Budgeted 2011-12

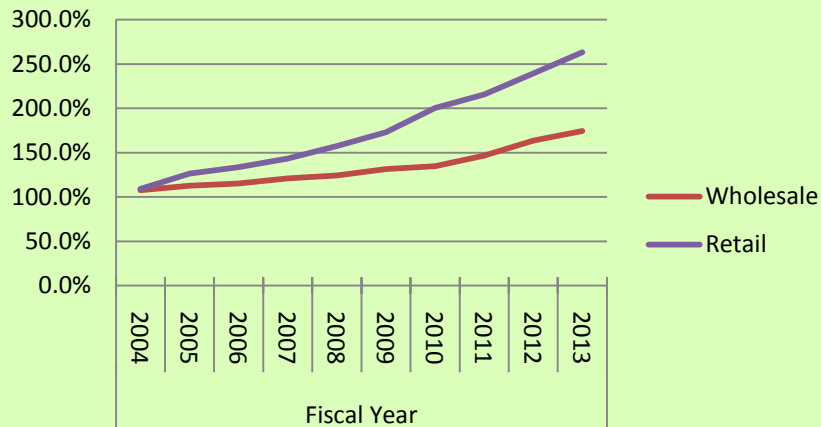
System Revenues	=	\$878,000,000
Operation/Maint Costs	=	(\$390,000,000)
Debt Expenses	=	(\$375,000,000)
Balance	=	\$112,000,000

- Revenue and O&M vary but Debt Expenses Fixed

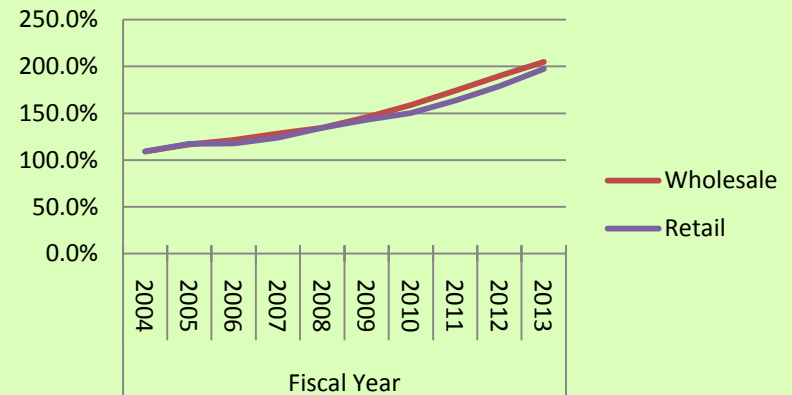
10 Year History of Rate Increases



Compounding Effect of Sewage Rate Increases



Compounding Effect of Water Rate Increases



Rates Components

- Capital Financing 56%
- Labor 19%
- Purchased Services 11%
- Utilities/Chemicals 10%
- Other 4%



BOWC is working on lowering Debt & Labor costs as the most direct way to deflect the rate curve over time.

Leadership Focus



Focus on the customer (engagement)
Effective and efficient
Absolute Integrity



Management Leadership Changes

New Director hired (1/12)

Early observations:

- Court order Requirements
- Cultural/Structural Issues
 - Leadership aloofness
 - Siloed organization
 - Disintegrated Technology & business systems
 - Narrowly defined jobs
 - Lack of accountability and responsibility
- Unacceptable rate trajectory
- High Debt
- Deferred Capital investment
- Absence of planning and strategy
- Structure in place for Customer Community engagement – DWSD leadership absence

Early Mandates



- Court
 - Establish New Divisions
 - Negotiate New Labor Contracts
- BOWC
 - Solids Handling
 - Bond sales
 - New Labor Contracts
 - **Reduce the trajectory on Rates**

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)

Challenges



- Strong unions – 20 bargaining units
- Employee skepticism – prior failed change initiatives, many changes in leadership
- Distrust of management
- Old style supervisory and management culture – limited skill development
- Declining size of workforce (ahead of efforts to adapt)
- Media and customer scrutiny

Opportunities



- *Organization ready for change*
- *Court Mandates as drivers*
- *BOWC change oriented*
- *Customer Engagement structure in place*
- *Supportive City Administration*

Reframing The Organization



- Challenge assumptions about:
 - Structure
 - Learning
 - Scope of duties and responsibilities
 - Rewards
- Change the boundaries
 - Organizational units
 - Jobs
- Address technology and business processes

In April DWSD contracted with EMA for a 90 Assessment



Time is of the essence

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

Key Findings....

- Siloed organization
- Inflexible job descriptions
- Multiple reporting levels
- Lack of training
- Seasonal work issues
- Ineffective deployment and use of technology
- Disconnected business processes



Flexible Organization Approach



Savings to date



- Budgeted staff 2012 – 2,244
- Existing filled positions as of June 2012 – 1,978
- Savings already identified - \$23M annually, realized in 2014 budget

Identified Reduction Opportunities



Item	Reduction/Year	Notes
Staffing	\$139.6 Million	1,978 to 357
Chemical Use	\$2.6 Million	15% of \$17.4M
Energy Use	\$4.8 Million	15% of \$32.3M
Vehicles	\$3.6 Million	724 vehicles @ \$5,000
Total	\$150.6 Million	33% Reduction

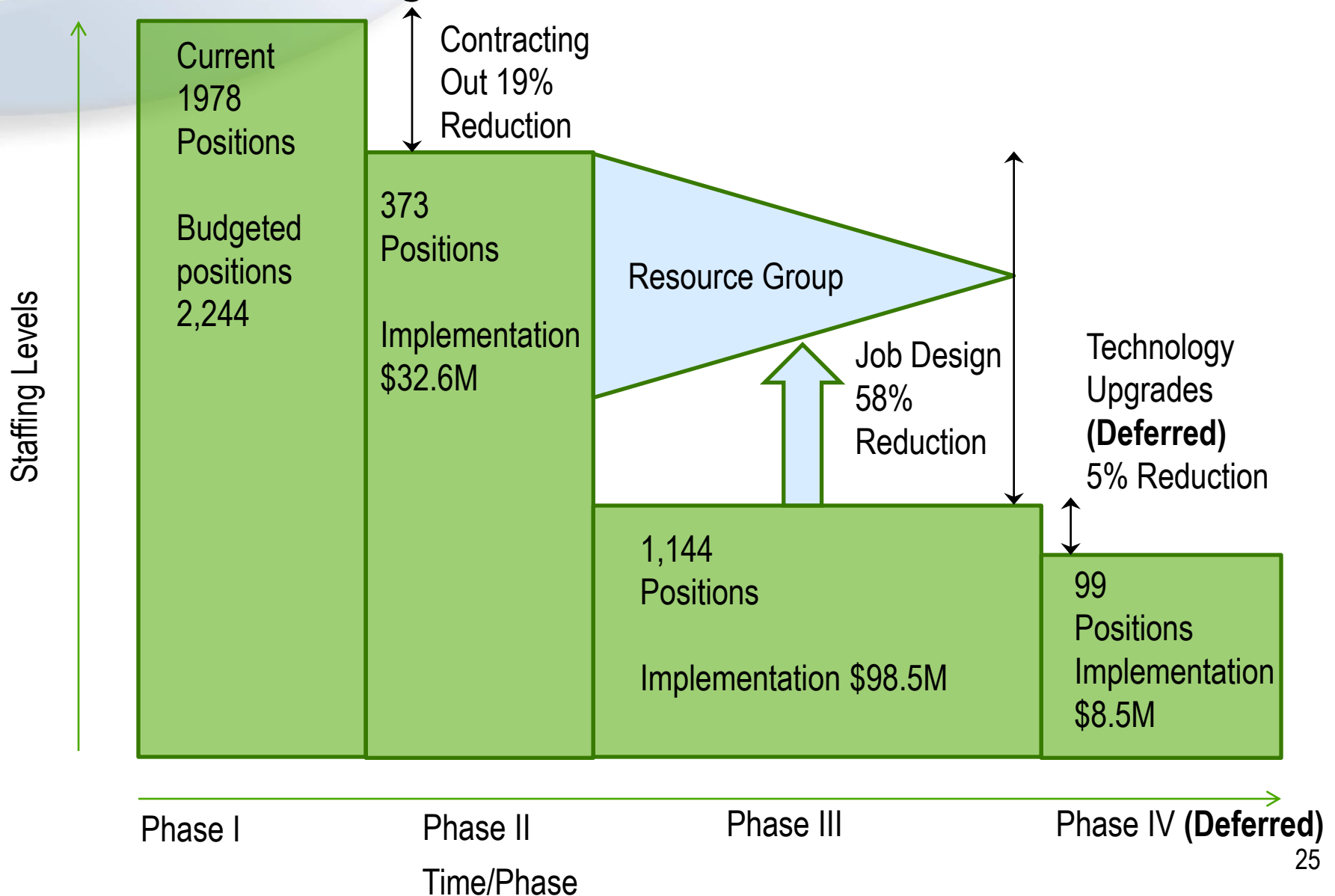
- Additional costs and projects are required to achieve these savings
- Does not include cost savings from benefit changes already implemented, reductions in overtime, or staffing savings already implemented

To achieve the savings in staffing a number of activities are required



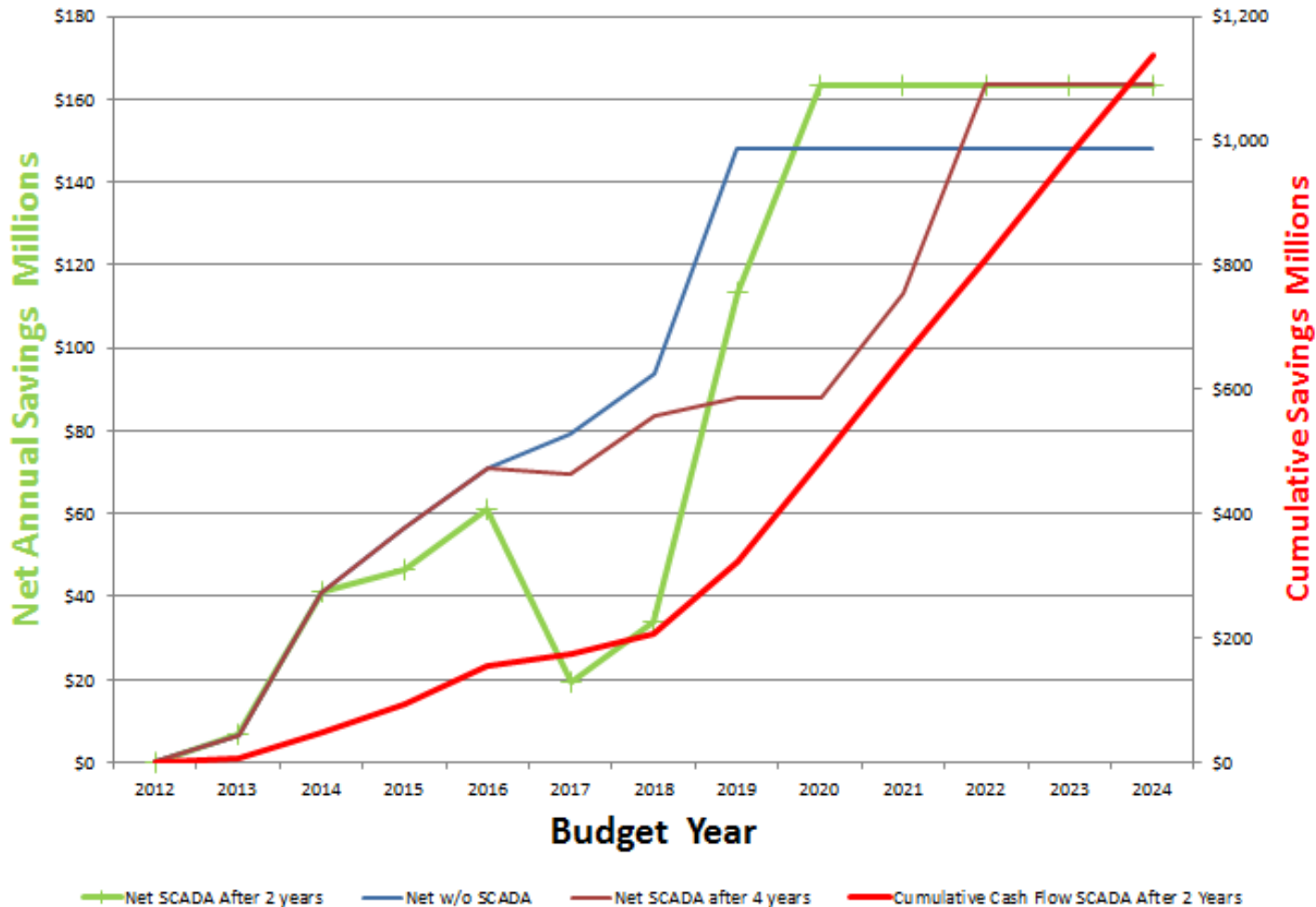
- Complete job design, training, re-organization and technology projects
- Invest in current systems and technologies through licensing costs and on-going training
- Outsource for large engineering projects and for peak times
- Contract out non-core functions for low cost services

DWSD Projected Staff Reductions



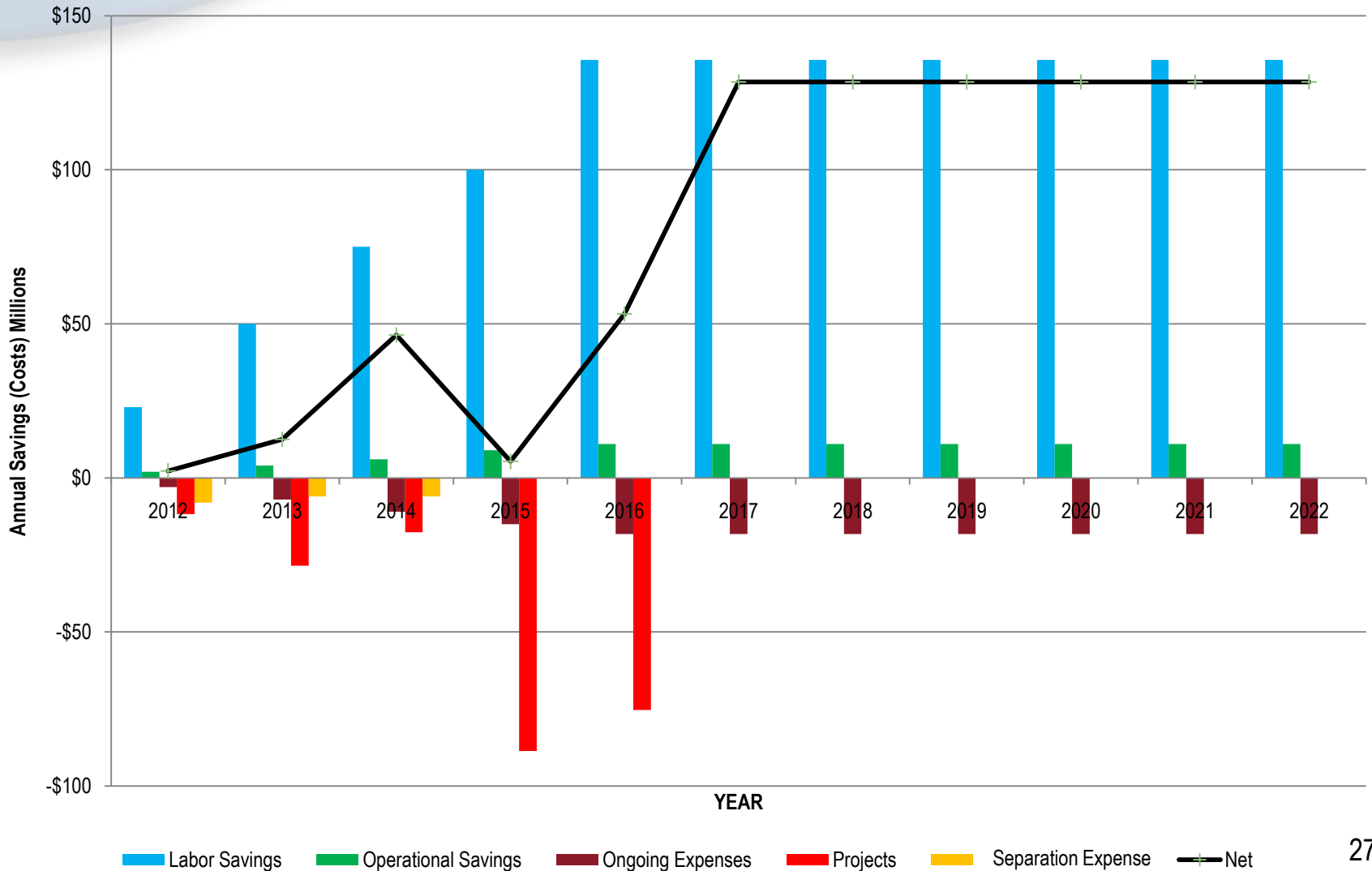
Proceeding with EMA for Phase II and III – deferred Phase IV

DWSD Reorganization Targeted Savings



DWSD Target Savings, 2012 Dollars

DWSD Reorganization Estimated Savings



DWSD Oversight



- Committee Structure
 - 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

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 and other areas where our customers have interest

How will savings translate to rates?



- I will be proposing a rate cap in the next 30 days going into the budgeting process

Long term:

- Deferred capital must be addressed
- Maximum Debt financing of capital must be reconsidered

Questions ?

