

Toho Declares its Independence & Commitment to Continuous Improvement

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A utility that separates, consolidates, and transforms its legal structure from a major city department to an independent water and wastewater public utility within a year's time is important in an organization's history, to say the least. In this case, the formation of the Tohopekaliga (Toho) Water Authority in late 2003 transformed it from a major department within the city of Kissimmee local government to a public utility with its own board and governance system.

After one year of operation, Toho decided to independently assess several key business support services delivered to it by the city under an administrative services agreement. To evaluate the current service delivery methods, outcomes, and values, Toho retained the services of the consulting firm EMA Inc., with experience in assessments of water and wastewater utility operations.

A variation of a new framework known as the Competitive Service Delivery Review (CSDR) review process was used to provide a systematic approach to reviewing current service delivery and to determine the best way to proceed. Four key business support service processes were selected by Toho management to review:

- ◆ Warehouse/Purchasing, combined city inventory control and procurement functions
- ◆ Fleet Maintenance
- ◆ Information Technology
- ◆ Finance

Competitive Service Delivery Review (CSDR) Process

The CSDR framework consists of a number of steps that will enable Toho to produce optimum value in service delivery continuously by reducing costs, improving quality and effectiveness, and increasing responsiveness to customers. Figure 1 summarizes the CSDR framework and process.

The steps in the framework are designed to identify, establish, and maintain a "competitive" service delivery environment that truly reflects the values of all stakeholders, including elected/appointed officials, regulators, customers, and staff, while providing a balance between the economic, social, and environmental objectives of the community.

Step one is specific to Toho's objective of

reviewing selected business support services. The balance of the process centers primarily on achieving the following objectives:

- ◆ Cost efficiency
- ◆ Service quality
- ◆ Degree of control required
- ◆ Ease of implementation of a delivery option as part of the evaluation criteria adopted and presented in the next section.

The CSDR framework steps are summarized in the following paragraphs. Note the scope of work carried through this step for two selected business services.

STEP 1: OPPORTUNITY IDENTIFICATION AND ANALYSIS—Programs and services delivered are assessed for competitiveness, and candidates for detailed review are identified and prioritized. The assessment identifies preliminary performance measures and targets that can be used during subsequent steps in the framework.

STEP 2: SERVICE DELIVERY OPTION ANALYSIS—Each service that has been selected for detailed review is assessed against available service delivery options, including, but not limited to, Internal As Is, Internal Re-Engineering, Managed Competition, Contracting Out, and Public-

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Private-Partnership/Public-Public-Partnerships (P3). The analysis for each service involves an initial screening to determine which of these options are feasible and appropriate for detailed analysis. The feasible options are then reviewed to determine whether the best option can be clearly identified based on available information, or whether a managed competition approach can identify the best option.

The output of Step 2 is the Competitive Service Delivery Plan, which includes a description of the services that have gone through the detailed Service Delivery Option Analysis in terms of scope of the service, out-

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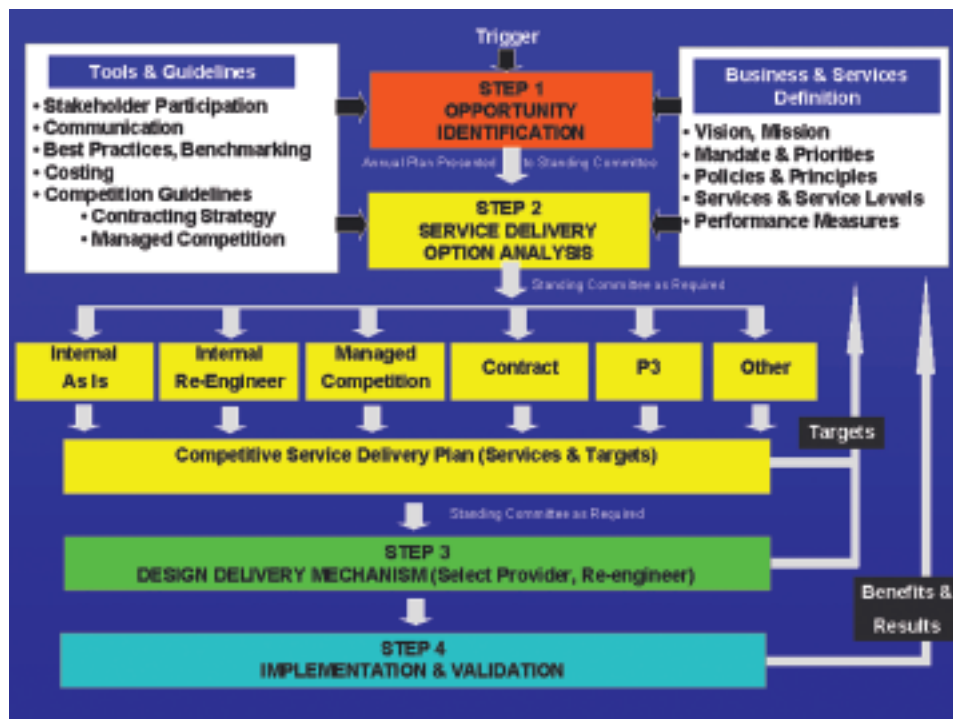


Figure 1: Competitive Service Delivery Review Process

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come or service delivery expectations, recommended delivery option, and performance targets.

STEP 3: DESIGN DELIVERY MECHANISM—This involves the solicitation, evaluation, and selection of proposals for re-engineering and competitive bids for managed competitions, contracting-out processes, and P3 partnerships. A transition strategy to achieve the new in-house performance targets or change to the new delivery option is developed.

STEP 4: IMPLEMENTATION AND VALIDATION—This involves managing and monitoring the re-engineered service or the contracted internal or external service provider to ensure that improvement targets and benefits are achieved.

CSDR as Adapted to Toho Business Support Review

The four services selected by Toho were assessed and candidates were identified for Step 2 review. The assessment consisted of a combination of interviews with a cross-section of stakeholders associated with each service and a desk audit of documentation provided by Toho and the city. Also, evaluation criteria by which services are evaluated for changes in service delivery were developed and validated by Toho.

The analysis for each service involved an initial screening to determine which of the above options are feasible and appropriate for detailed analysis. The feasible delivery options were reviewed and short-listed to the ones deemed most feasible. The original list of delivery options were:

No.	Candidate Review Criteria	Wgt	SCORING			
			Fleet	W/P	IT	Fin
1	Ability to clearly define scope & performance expectations	20%	3.7	3.4	3.1	3.7
2A	Potential expected efficiency gains (\$)	30%	4.2	3.5	2.6	3.6
2B	Potential service quality gains	15%	3.5	3.9	2.9	4.0
3	Degree of control	15%	3.6	3.6	3.1	4.0
4	Availability of delivery options/providers	10%	3.7	3.3	3.0	3.3
5	Degree of difficulty aligning stakeholders	10%	3.5	3.2	2.7	3.0
	Weighted Scores	100%	3.8	3.5	2.9	3.6

Table 1: Preliminary Scoring Results

- a. Delivered by City, As-Is
- b. Delivered by City, Re-engineered
- c. Delivered by Toho (“contracting in”)
- d. Contracted Out or Outsourced
- e. Managed Competition to any External Providers (including City) and Possibly Toho In-House Staff

Note that service delivery option (e) was regarded as potentially more costly and posing higher risk than the other options in Toho’s situation. Because these services are already externally provided to Toho by the city, it would be potentially disruptive to the departments involved that are currently providing support to city operations at large. Thus, option (a) was deemed not feasible and was not further considered.

The output of Step 2 is the recommended competitive service delivery plan, which includes a description of the services that have gone through the detailed Service Delivery Option Analysis in terms of scope of the service, outcome or service delivery

expectations, recommended delivery option, and performance targets. These findings and recommendations are presented in the subsequent report sections.

Opportunity Identification & Prioritization Process

Evaluation Criteria

Evaluation criteria for selecting and analyzing service delivery options were developed in a kick-off workshop. Minor adjustments were made and weights were assigned to each criterion.

The Toho senior management team individually scored each of the four selected services based on a 1 to 5 scale: 1 = conditions do not support the criterion; 5 = conditions suggest that alternative delivery may increase value. Preliminary scoring by the management team of the four selected business support services provided by the city prior to assessment is shown in Table 1.

A total of 40 interviews were conducted of the key providers and users of these business services—12 interviews of city staff members and 28 interviews of Toho staff members. Desk audit information was requested and included:

- ◆ Organization charts, including staff complement
- ◆ Annual budget, including details of revenue/funding sources
- ◆ Charges and/or cost allocations for services provided to Toho by the city and rationale associated with assigning allocations costs (Administrative Services Agreement)
- ◆ Service descriptions (including service level agreements, if any)
- ◆ Performance measures and any associated historical data especially pertaining to the four business areas to assess
- ◆ Asset inventory – including facilities, fleet, equipment, and warehouse items (please indicate ownership if not owned by Toho)

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- ◆ Technology inventory – software applications in use, hardware, equipment, network infrastructure (please indicate ownership if not owned by Toho)

The results of the assessment phase are presented in the following paragraphs for each of the four business support services.

Warehouse/Purchasing

The Warehousing/Purchasing function was recommended to be transferred into Toho control and use existing storeroom space owned by Toho and other locations. Doing so opened up several options, includ-

ing the need to construct or rent space or add space in anticipation of further growth and consolidation,

The annual administrative fee paid to the city reduces from \$498,871 to an estimated \$131,691. Other recommended improvements, including the use of the vendor managed inventory (VMI) methodology for high-demand stock such as water meters, are mentioned in this report as another way to save space, time, and money.

Fleet Maintenance

Feet maintenance services were ranked especially high due to its dependency on cov-

ering a large geographic area. Toho service request priorities are placed behind police, fire, and solid waste—yet Toho depends on reliable and available fleet equipment to avoid idle crew time and to be available 24/7 for emergencies.

Since the need to significantly improve the quality of service ranked first, followed by cost efficiency, these service attributes were found to be inconsistent at best. Based on the evaluation criteria agreed to, fleet maintenance services were recommended to be outsourced.

The total, all-inclusive, operating and maintenance cost for Toho's 200+ fleet assets is approximately \$580,000. Based on conservative assumptions, the total O&M cost for the fleet services may not significantly change from the current cost with a move to private-sector service provision; however, significant improvements in effectiveness were projected in the service level delivered by Toho, control, and the ease with which future changes can be implemented to fleet maintenance services as needed. The findings provided the option for Toho to leverage negotiations with the city toward achieving more favorable service levels.

Finance & Information

Technology Performance

Finance and Information Technology were also assessed and for services currently provided by Finance, it was recommended that an orderly transfer to Toho's business services manager take place.

The assessment indicated that customer dissatisfaction is prevalent as a result of not receiving timely month-end close-out figures and inconsistent accuracy of financial information during the budget year. This problem hinders timely decision making for Toho, especially in engineering-related procurements.

It was also observed that the capability exists to accept more functions because some processes are already performed in part (duplicative functions) and some processes could be outsourced, such as payroll, as noted in this report.

The services performed by the Information Technology (IT) Department are the only ones recommended to remain as city-provided, but with some considerations associated with improving its delivery effectiveness.

Results & Lessons Learned

The CSDR process as applied to Toho business support services resulted not only in significant up-front annual cost savings to Toho of over \$360,000, but also several collat-

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Toho

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eral benefits to the city as well.

Most noteworthy was an opportunity that opened up for the Department of Parks and Recreation to transfer part of its operation into city warehouse space used by Toho. This transfer will avoid the construction of a \$1 million facility and spared using recreation space currently used as a ball park.

As a result of the process, Fleet Maintenance, seeing the risk of losing a large customer, has indicated a willingness to

negotiate a service level agreement, and the new business services manager is overseeing the first phases of the transfer of accounts payable and payroll.

The cost to provide services can differ greatly on a functional, departmental, or utility basis. Without a close examination, one can not know the real costs or the best way to deliver the services. Getting people in a structured way, such as the CSDR process, does not necessitate a momentous event such as Toho Water Authority's formation to examine a utility's key business support services. ◊