

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: APRIL 23, 2018

ITEM NO: 13

SUBJECT: CITY OF RIVERSIDE PUBLIC UTILITIES DEPARTMENT OPERATIONAL IMPROVEMENTS AND EFFICIENCIES

ISSUE:

Receive a report on the operational improvements and efficiencies that the City of Riverside Public Utilities Department has implemented in the last twelve months.

RECOMMENDATION:

That the Board of Public Utilities recommend that the City Council receive this report on the operational improvements and efficiencies the City of Riverside Public Utilities Department has implemented in the last twelve months.

BACKGROUND:

In preparation for the rate increase proposal, over the past year the Riverside Public Utilities Department (RPU) has thoroughly reviewed its operations and spending to maximize cost savings, operational efficiencies and the potential of non-ratepayer revenues. These cost savings, efficiencies and maximized revenues were factored into the recent rate proposals in order to minimize rate impacts.

DISCUSSION:

The RPU electric and water rate increase proposal reflects:

- \$4.5 million in Fiscal Year 2018/19 (\$32.4 million projected over five years) in maximized non-ratepayer revenue, which includes increased transmission revenue, cap and trade revenue, excess renewable energy credit sales, scheduling services, water conveyance, wholesale water sales, and property lease revenue.
- \$4.1 million in Fiscal Year 2018/19 (\$17.8 million projected over five years) in financial savings identified in the past year alone, which includes personnel, professional services, energy charges, greenhouse regulatory fees, water production costs, water treatment chemical costs, various maintenance costs, and miscellaneous other costs.
- Additional operational efficiencies achieved in the past year, including elimination of vacant positions, evaluation of work units resulting in realignment of workforce development and communications, enhanced call center response, improved coordination with departments, and overtime management.

MAXIMIZATION OF REVENUES

As noted above, RPU's rate proposal includes millions of dollars in revenues received from other entities, thereby minimizing the financial burden on the ratepayers. These electric and water revenues include: electric transmission; cap and trade auction proceeds; renewable energy credit sales; miscellaneous electric service revenues; scheduling coordinator services; water conveyance; wholesale sales; property lease revenues; and other operating revenues.

<u>Fund</u>	<u>FY 2018/19 Increased Revenue</u>	<u>5-Year Increased Revenue Impact</u>
<i>Electric:</i> Includes transmission revenue, cap and trade revenue, excess renewable energy credit sales, and property lease revenue	\$3,695,379	\$19,797,820
<i>Water:</i> Includes water conveyance, wholesale water sales, and property lease revenue	\$851,300	\$12,557,621
TOTAL	\$4,546,679	\$32,355,441

In addition, as part of the rate proposal, RPU is proposing the use of a line of credit (LOC) to reduce the level of cash reserves it holds as required in RPU Fiscal Policies. Substituting a line of credit in lieu of holding cash reserves will help keep the proposed rate increases as low as possible by allowing RPU to spend reserves on projects instead of raising rates and/or issuing debt. RPU does not plan to draw on the LOC. Instead, it will provide flexibility and operating liquidity similar to cash reserves if there is an emergency need and also allows RPU to meet the overall liquidity and reserve levels acceptable to bond rating agencies. RPU plans to obtain a LOC of approximately \$40 million for the Electric Fund and approximately \$25 million for the Water Fund.

ADDITIONAL COST SAVINGS

As discussed in detail below, additional financial savings have been identified through a thorough review of RPU's operations and spending over the past few months. These include savings from the elimination of vacant positions to reduce levels of senior management, cost reductions in discretionary spending and operational efficiencies and improvements in managing overtime hours and costs.

EFFICIENCIES ACHIEVED THROUGH DEPARTMENTAL REORGANIZATION

Executive Leadership

In recent months, RPU's executive management structure has been reassessed, and the number of Assistant / Deputy General Manager positions have been reduced from seven to four – a 43% reduction in senior management. Following are the changes that were implemented:

1. Eliminated the vacant Deputy General Manager position.
 - a. Workforce Development moved under the Assistant General Manager/Finance and Administration.
 - b. Safety and Regulatory Compliance directly reports to the Office of the General Manager.
2. Eliminated the vacant Assistant General Manager/Marketing and Customer Relations position.
 - a. Marketing/communication functions moved under the City Manager's Office/Communications Division.
 - b. Public Benefits/Customer Relations and Legislation moved under the Assistant General Manager/Power Resources.

- c. Customer Service/311 and Field Services moved under the Assistant General Manager/Finance and Administration.
3. Eliminated the vacant Assistant General Manager/Operational Technology.
 - a. The executive level position will be replaced with a division manager reporting directly to the Office of the General Manager.

The total savings realized with the elimination of these three positions for Fiscal Year 2018/19 are \$815,611, which represents both salary and benefits. Over the next five years, this restructuring will save the ratepayers approximately \$4.5 million. Attachment 1 reflects the new organizational structure of RPU.

Human Resources / Workforce Development

In 2015, the Board of Public Utilities and City Council conceptually approved Utility 2.0 that included the Workforce Development Strategic Plan to ensure a ready labor force to implement the future needs of RPU. As a result, staffing changes were implemented to create a Workforce Development (WFD) Division to focus on RPU recruitments, on-boarding, career ladder building, and training. Currently, there are seven positions included in the WFD Division.

Following the operations review of the WFD Division, it was determined that recruitment and training are better served under the Human Resources (HR) Department. As a result of this recommendation, RPU is making changes to five positions:

1. One vacant RPU recruiter position was eliminated, resulting in \$131,392 in savings, representing salary and benefits. Over the next five years, this restructuring will save the ratepayers approximately \$700,000.
2. Two positions will be moving to the City's centralized Human Resources Department (HR), but will continue to support RPU recruitments and be fully funded by RPU. RPU typically has 40-45 recruitments underway at any given time.
3. Two positions will be moving to HR but will continue to support training for RPU and be fully funded by RPU. RPU has over 600 employees requiring on-going technical and soft skills and technical training.

The four positions transferred from RPU will be under the supervision and direction of the HR Director. The remaining two positions are administrative in nature and are being moved internally from the WFD Division to the Administration Division. These employees are similar to administrative staff in other departments whose function includes handling department personnel paperwork, monthly reporting/statistical information, public records responses, department contract management, and other administrative projects assigned by executive management. Attachment 2 reflects the new organizational placement of RPU's WFD positions.

Customer Engagement / Communications

The Customer Engagement Division is responsible for communicating with RPU's internal and external customers, including preparation of the "back of the bill" content for utility bills, managing RPU's external and internal facing website pages, promote electric and water rebate programs, social media, capital improvement project communication, facilitating community meetings and outreach, and sponsorship/promotion. Following a review of similar positions between RPU and the City Manager's Office/Communication Division, it was determined that the City Manager's Office/Communication Division can provide greater support to RPU, while also ensuring that all marketing materials and communication are in alignment with the City's overall messaging. As a result of this recommendation, RPU is making changes to six positions:

1. One vacant position was eliminated, resulting in \$83,025 in savings, representing salary and

benefits. Over the next five years, this restructuring will save the ratepayers approximately \$450,000.

2. Two positions, one for website design and one for photography/videography will be moved to the City Manager's Office/Communication Division. These positions will continue to support RPU communications efforts under the supervision and direction of the Marketing Officer and be fully funded by RPU.
3. Three vacant positions are identified to be transferred to the City Manager's Office/Communication Division as a part of the Fiscal Year 2018/19 – 2019/20 biennial budget in an effort to streamline collateral development, including graphic design, social media content, and website updates. The three positions will be fully funded by RPU and will function under the supervision and direction of the Marketing Officer.
 - a. The filling of these three vacant positions is contingent upon the outcome of the rate proposal.

Attachment 3 reflects the new organizational placement of RPU's Customer Engagement / Marketing positions.

Operational Technology / Innovation and Technology

In April 2015, RPU formed the Operational Technology Office (OTO) in response to a business need to develop and support technologies focused on automating and improving electric and water utility operations. With a rapidly changing utility industry, RPU needs to remain active in monitoring and controlling infrastructure for the production and delivery of water and electricity to customers. While the Innovation and Technology (IT) Department provides support for the entire City, their core responsibilities are focused on necessary technologies to process, store, retrieve, transmit, and manipulate data, as well as integrate new technologies with other Citywide systems. Conversely, operational technology is specific to operating Utility assets including distribution equipment, control devices, switches, transformers, circuit breakers, and meters. The goal of the OTO is to build a system architecture to seamlessly integrate data from operational systems with the back-end IT counterparts.

RPU and IT are continuing to review the functions between the departments and clarify roles and responsibilities. These conversations are on-going and formal recommendations to the City Manager's Office are pending.

Finance

After reviewing the function of the RPU Finance Division and the Finance Department, opportunities for efficiencies have been identified. Specifically, these opportunities include implementing streamlined processes for debt management, financial reporting, and review of RPU Board actions.

Building Services

All City departments receive support from the General Services Department, whose Building Maintenance Division includes building maintenance, HVAC technicians, electricians, and custodians. Similar building maintenance positions exist in RPU, Public Works and Parks, Recreation, and Community Services. Future opportunities to centralize staffing will be evaluated upon the completion of the performance and financial audits currently underway in the General Services, Public Works, and Parks, Recreation and Community Services departments.

311 Call Center

RPU's Customer Service Division operates the 311 Call Center on behalf of the entire City for non-emergency customer service requests. 311 receives hundreds of customer inquiries each day via phone, web and mobile application, and is a critical touch-point to ensure excellent customer service is being

provided to the citizens of Riverside. RPU recently engaged affected City departments to assess the 311 processing of inquiries from submission to closeout. Once opportunities for improvements are identified, necessary changes will be made to the process to ensure that the most efficient methods for timely tracking and responding to customer inquiries across all Departments are in place.

Public Works Coordination

RPU and the Public Works Department are working more closely together to plan capital improvement projects so as to ensure a streamlined process so streets are not impacted multiple times over the course of a year. Instead, if there is a planned street improvement project, the departments coordinate together to determine if additional work may be needed, including undergrounding utilities, water pipeline replacement, and street resurfacing. By enhancing the communication and planning process, RPU and Public Works can create operational efficiencies that reduce the impact to the community, while also saving money. At this time, RPU cannot accurately estimate the savings that will result from this more coordinated approach.

From a private development perspective, RPU in collaboration with Public Works and other City departments has been an integral component of Streamline Riverside, which has successfully reduced entitlement and building permit review times for the City's customers. Now, RPU is currently embarking on Build Riverside, another collaborative effort aimed at improving the construction and inspection experience through consistency, transparency, certainty, and expediency.

Total Personnel Cost Savings

<u>Electric Fund</u>	<u>FY 2018/19 Cost Savings</u>	<u>5-Year Cost Savings</u>
Elimination of five positions, representing salary and benefits	\$1,030,028	\$5,650,000

OTHER OPERATIONAL IMPROVEMENTS

Overtime Management

Transparent California is an advocacy organization that reports annual earnings for all public employees. In May 2017, Transparent California reported the top ten overtime earners statewide for calendar year 2016; that list included an RPU Electric Power System Dispatcher who received unusually high overtime pay. Following the report, RPU immediately responded to reduce excess overtime, review timecards to determine who approved overtime hours, review overtime payouts on a bi-weekly basis to show overtime percentage levels by division and work group, and hire vacant positions to prevent the need for excessive overtime.

In addition, RPU worked closely with the City Manager's Office, Finance Department, and Office of Organizational Performance & Accountability; implementing the following:

1. The City Council approved an increase in positions, from 10 to 13 positions in Electric Operations to fully staff the Dispatch work group in a direct effort to reduce overtime hours and compensation.
2. RPU conducted an audit on approval authority levels in the payroll record keeping system (UWAM), and implemented corrections to ensure that only the appropriate level of employees have access to approve timecards.
3. In August 2017, RPU, along with all City departments, completed the Overtime Control Self-Assessment in conjunction with the Internal Audit Division to identify benchmarks and leading best practice controls regarding overtime.

4. In September 2017, the City hired an audit firm, MGO, to review overtime in RPU with findings and recommendations to be issued in April 2018.
5. In October 2017, RPU completed an Operational Feedback report in conjunction with the Internal Audit Division to review all work groups/personnel with overtime percentages above 20 percent and identify ways to reduce overtime, if applicable, while maintaining appropriate staffing levels for 24/7/365 operations.
6. RPU is working closely with the Human Resources Department on recruitments as vacancies can exasperate an overtime problem within certain work groups where 24/7/365 shifts are required to be covered. The current number of days for a recruitment to be completed for RPU is 119 calendar days, which is less than the target of 120 days.
7. Other overtime reductions and staffing-level improvements were implemented in field divisions; including changing shift assignments, standby crew elimination, scheduling routine projects during the business day, etc.
8. As part of the Fiscal Year 2018/19 – 2019/20 budget process, overtime dollars were correctly budgeted in each division based on prior year trends to appropriately track anticipated and actual costs. Overtime is closely monitored; however, overtime is necessary due to many factors associated with management of 24/7/365 utility operations; such as stand by time, emergency services not during normal daytime hours, employee leave, etc.

The implemented changes noted above have resulted in an average 35% reduction in Electric Operations and Electric Field overtime hours (February 2017 to February 2018); and will continue to result in reduced overtime hours and costs department-wide in future months. Process improvements were implemented throughout calendar year 2017, therefore a full 12-month comparison will not be available until December 2018. Projected savings in overtime costs from Fiscal Year 2016/17 compared to the current Fiscal Year 2017/18 is \$679,000. This savings is partially offset by the addition of new positions and filling vacancies.

Additional Non-Personnel Cost Reductions

RPU has therefore identified numerous ways to operate more efficiently, scrutinize operating, maintenance and administrative costs, and reduce costs where possible. In conjunction with the rate proposal cost of service and preparation of the two-year budget, all RPU divisions were tasked with identifying any and all additional potential savings.

A total of \$3.1 million in non-personnel reductions was identified and reflected in the proposed two-year budget for Fiscal Year 2018/19 - Fiscal Year 2019/20, with a projected savings of approximately \$12.4 million over a five-year period. The breakdown of these additional savings is as follows:

<u>Fund</u>	<u>FY 2018/19 Non-Personnel Savings</u>	<u>Five-Year Non-Personnel Savings</u>
<i>Electric:</i> Includes professional services, energy charges, greenhouse regulatory fees, various maintenance costs, and miscellaneous other costs.	\$2,715,304	\$11,710,276
<i>Water:</i> Includes professional services, production costs, chemical costs, and miscellaneous other costs.	\$411,000	\$671,000
TOTAL	\$3,126,304	\$12,381,276

FISCAL IMPACT:

There is no fiscal impact with the receipt of this report. All fiscal savings realized by the efficiencies will be included in the Fiscal Year 2018/19 - 2019/20 budget submissions to City Council for adoption.

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Attachments:

1. RPU Executive Leadership Organizational Chart
2. RPU Administration Organizational Chart
3. RPU Customer Engagement Organization Chart
4. Presentation