

REPORT ON UTILITY ORGANIZATION

**Prepared for the
City of Hamilton, Ohio**

July 7, 1999

Scope of Engagement

Sawvel and Associates, Inc. was asked to review and consider certain organizational and operational changes for the City's Utility Systems. The thoughts and recommendations on such organizational changes are set forth below in this Organization Report. The analysis of such operational changes will follow in a separate Operations Report.

This report was prepared as a team effort between C. Brooke Dormire and Sawvel and Associates, Inc.

Method

In preparing this report we have relied largely on our general knowledge of the Public Utilities Department derived in the course of rendering engineering consulting and other advice to the City since 1983. With limited exceptions, we have not had discussions with City personnel other than the City Manager and Director of Law for purposes of this report. It reflects our views only.

Managing Directors

The City has recently created the positions of Managing Director of Operations/Deputy City Manager and Managing Director of Administration/Deputy City Manager, although we understand that initially perhaps only one position may be filled. We were told to assume that it will be Operations in view of the request for this report. We recommend that such position be filled promptly.

Each Managing Director will report directly to the City Manager, and we understand that the Assistant City Manager position will become vacant and perhaps be abolished. Thus, until such time as the Managing Director of Administration position is filled, the duties of that position will continue to be borne by the City Manager.

We understand that it is contemplated that what now are the Departments of Public Works, Parks and Recreation and Public Utilities will report directly to the Managing Director of Operations.

In addition to the benefits to be derived within the City generally, we believe that the creation of these two new positions will offer beneficial opportunities to improve the organization and operations of the Utility Systems and the coordination between such Systems and other areas of City activities.

Organization Structure

Our past work has not acquainted us with all of the details of the City's organization but we are generally familiar with how it operates with respect to the Utility Systems. The chart on page 9 sets forth the plan of organization as we recommend be implemented upon or shortly after appointment of the Managing Director of Operations. Other changes should follow in due course as discussed below, but as an overall framework in making such changes we recommend adhering, for authority and responsibility purposes, to the financially distinct four Utility Systems as defined in the City's revenue bond indentures: Electric, Gas, Wastewater and Water. As is discussed below, this is different from the recommendation of R.W. Beck which was to retain the current "line-of-business approach" organization with certain additions.

Opportunities Provided by Organization Changes

There are two major potential consequences of implementing the new Managing Director of Operations position the way that we recommend. First, it should permit decentralization of utility management without an offsetting loss of coordination. The coordination among the separate utilities would be provided at the Managing Director level. We reviewed the

Managing Director of Operations job description and the supervisory nature of the Operations position. From that, we feel that if the new structure is as successful as we believe it will be, then the new Operations position ultimately will make redundant the current existing position of Director of Public Utilities.

With the realignment of the existing Public Utilities divisions along Utility System lines, each System would constitute a Department headed by a Director wholly responsible for its operation, and reporting directly to the Managing Director. Initially at least, this will represent not so much an increase in duties of such Department heads as it will represent an increase in authority implied by decreased ability to pass the buck upwards. This will be especially so if, as we feel may be beneficial, the Managing Director of Operations is not of a utility background. Initially at least, and quite possibly long term, the most important qualities for the person appointed to such position will be management and people skills. Such organizational change need not require but would permit subsequent adjustments in compensation to fit responsibilities. There would seem not to be any inherent nonpolitical reason that compensation levels be the same for each Utility System. Such decision should await the Managing Director of Operations' recommendation. This will allow greater possibility for and flexibility in those recommendations as the practical details of the organizational changes along Utility System lines are implemented with the opportunity for input from all levels. In such streamlining, we recommend an overall, goal of fewer structural compartments.

A second major potential consequence of such change in organization should be the potential for better coordination between Departments and Divisions reporting to the two Managing Directors. Unclassified civil service status of such positions and the likely practical linkage of their tenure to that of the City Manager should curb if not eliminate the tendency toward undesirable bureaucratic characteristics at the Managing Director level. It also should permit

combining utility activities functionally without combining them organizationally as well as facilitate combining organizationally if that is preferable, especially if the two Managing Directors are personally compatible. Such compatibility should be an important consideration in filling such positions. Thus, the plan of organization should facilitate easing areas of current difficulties or asserted difficulties between Departments such as customer relations, financial information access and economic development commitments.

Unification of Utility Systems

The plan of organization would conform at least the higher levels of management and operational structures of the four Utility Systems with the actual financial and accounting structures of those Utility Systems. Currently the operational and financial structures of gas, water and wastewater are quite different one from each other:

- ◆ The Assistant Director in charge of gas operations also is responsible for water distribution
- ◆ The Assistant Director in charge of water production also is responsible for wastewater treatment
- ◆ Wastewater collection is the responsibility of the department of Public Works rather than Public Utilities

and yet

- ◆ All Water System operations, both production and distribution, are financed and accounted for as a single operation separate from gas and wastewater activities

- ◆ All Wastewater System operations, both collection and treatment, are financed and accounted for as a single operation separate from water and other Public Works activities

- ◆ Gas System operations are financed and accounted for separately as a single operation with no relationship to water distribution

Currently only the Electric System activities other than engineering and meter reading exhibit such confluence.

Uniting in one person the responsibility for day to day operations as well as long term planning of infrastructure renewal, replacement and expansion with the responsibility for the necessarily associated rate level and financial planning ought to produce substantial planning benefits as well as facilitate identification of operating economies. Such benefits as currently flow from combining activities along functional lines should be equally possible through coordination imposed by the Managing Director structure.

Something similar has been discussed from time to time with respect to wastewater operations. The transfer of wastewater treatment to the Department of Public Works would in effect unite the Wastewater System as we are suggesting. The same could be accomplished, of course, by transferring wastewater collection activities in the other direction, but because of the role of the City Engineer it would be more expedient initially to transfer wastewater treatment, including its Assistant Director, to Public Works. Street repair, maintenance and other operations obviously must be coordinated with underground utility and surface water control activities, but streets are not and should not be part of the Wastewater System. We see no problem during a transition period in having the head of the

Wastewater System initially reporting to the Director of Public Works rather than directly to the Managing Director of Operations, unless there is a need or desire to lighten that Director's work load at this time, but the goal should be a separate Wastewater Department. Thus, following such a transfer, we recommend that the Managing Director of Operations consider decentralizing Public Works in the same manner as Public Utilities.

Movement to Public Works of the current Assistant Director for wastewater treatment, and the combining of water treatment and water distribution, will result in a vacancy at the head of the Water System. As stated above, in the course of the transition to the new organization the position of Director of Public Utilities may be eliminated. As we understand the requirements stated in the "Classification Description", Mr. Fleming perhaps is not eligible for the Managing Director of Operations position, and in any event we understand that he did not apply for such position. This presents an opportunity for the City. If as a part of the transition to the new organization Mr. Fleming were to take over responsibility for a united Water System, the City would be well served. Mr. Fleming has substantial experience in the area. This is a very important matter of some urgency if only because of the litigation, and such a move would be a great service to the City.

R. W. Beck provided to the City a report dated November 1998 replacing the final draft of the same dated June 1998. Briefly, the Beck report constituted a general discussion of problems and over 100 general and specific recommendations for consideration to improve economics and efficiency of operation to increase the viability of the Department of Public Utilities. Including appendices, the Beck report comprised 170 pages of not always easy reading, but the overall message that emerged, despite the compliment paid ("sound and generally well-run" – page 2), was:

- ◆ A need for better coordination for efficiency, economy and quality
- ◆ The existence of numerous opportunities to reduce costs
- ◆ The importance of changing some aspects of relationships between the Department of Public Utilities and other areas of City operations
- ◆ Particularly for Electric System, that a change in governance, including inserting a “separate board” between the City Manager/City Council and the utility operations, may be necessary for survival in a competitive environment

We have not attempted to evaluate the Beck report or to duplicate its approach. Our assignment was to address the larger issue of basic organization and operations. The City Manager, Managing Directors, Directors, Assistant Directors and Superintendents are fully capable of evaluation, recommendation and implementation as deemed appropriate of each Beck report recommendation that is within the City’s power to affect and should be required to do so. We will elaborate on that in our Operations Report.

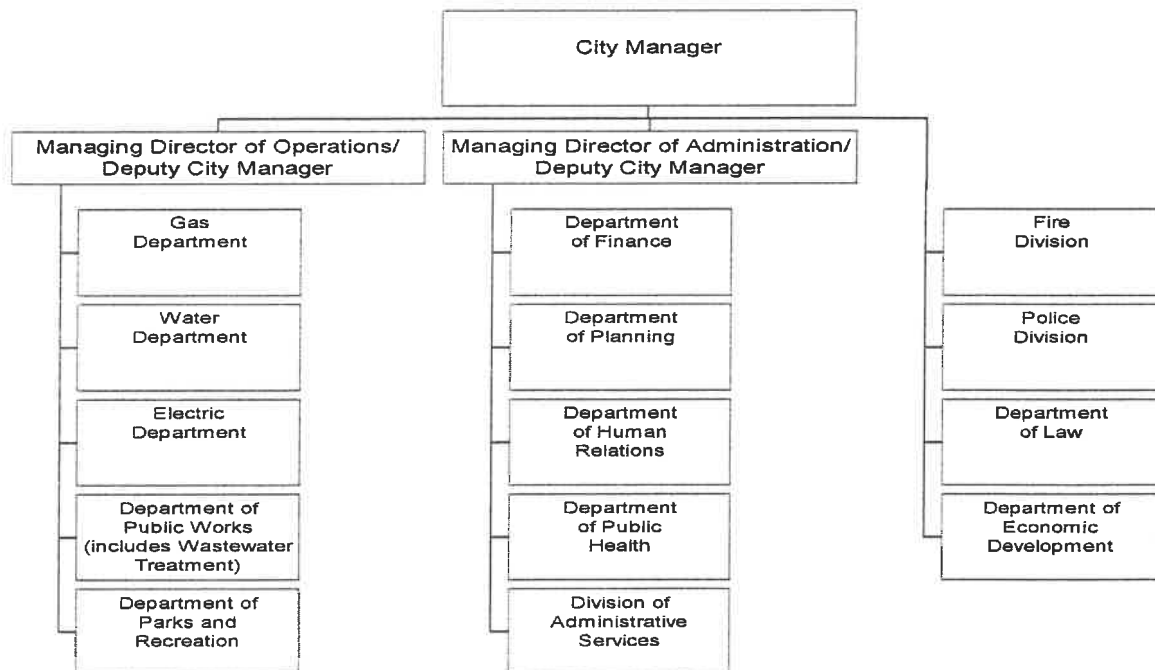
We agree with R.W. Beck that there are things that can and should be done but we believe that the best, first and perhaps only thing to do is to focus, or continue to focus, on things within the City’s power to affect in the ordinary course. There is no reason, and frankly we see no need, to assume that characteristics which R.W. Beck apparently presumes to be inherent in municipal ownership can or will change or that the City Charter or State law will change in the City’s favor.

As for the "governance" issue, we would simply observe that it seems to be something of a red herring. Were the political or institutional interference concerns that apparently underlay it truly potentially fatal, they could be equally so with a "separate board", whether appointed by the Council or separately elected. Any arrangement can be effectively compromised by political considerations, just as the existing relationship between the City Council and the Administration can be consistent with successful utility service. We don't believe that a separate board is necessary.

The issue really is whether quality utility services in fact are provided at sufficiently low costs. In order to ensure such service at such cost in the future we do believe that two things are necessary. First, we believe there must be a decentralization of utility management which does not result in any loss of coordination in operations and which also unites operations with financial planning responsibilities. We have described in this Organization Report how we believe that can sensibly be accomplished. Second, we believe that there are operational and financial changes that can and must be made, particularly with respect to the electric utility. We will describe such changes in our Operations Report.

Plan of Organization

The following chart illustrates the plan of organization:



This plan of organization contains the opportunity to combine and rearrange further based on actual experience with the Managing Director concept, including reevaluation of both that concept itself as well as the elimination of the positions of Director of Public Utilities and possibly Public Works. Examples of other opportunities would be the integration into the new structure of, and the facilitating and improving the provision of, engineering services, meter reading and operating and financial information and billing services to each Utility System. It also would permit creation by the Managing Director of special projects or assignments for existing professionals or management that cross Utility System lines.