

4.0 ORGANIZATIONAL ANALYSIS

The creation of a new public water district provides the chance to analyze the potential for organizational cost savings through the full integration of each entity's board, staff and outside services. Section 4.1 through 4.4 below present this analysis. An effective organization is dependent on the philosophy of the governing body, the culture the management promotes, and the dedication of the staff. When considering a change to the existing organizational structure certain challenges and opportunities may present themselves:

Challenge: *Maintain high level of customer service.*

Opportunity: *Improve on current customer service models and achieve efficiency through economy of scale.*

Summary: A new public water district provides the opportunity to further improve on service through the combination of resources from the existing highly performing retail water providers. The new district would not change the day-to-day service customers have come to expect. Rate systems, customer experience and water service would not change – and would likely improve – as part of this transition. The transition would provide ample opportunity to further analyze and improve upon existing levels of service and ensure the best parts of the region's current water providers are carried forward. It is estimated over a three-year period, a reduction in staff of up to **11.9** full-time equivalents could be accomplished while maintaining the existing level of service. When combined with a reduction in the board members and outside services contracts it is projected over a three-year period to save a total of **\$2,752,000** with an ongoing savings of up to **\$1,619,000** per year for the new district. This would result in over \$14 million dollars in savings over ten years.

4.1 Board of Directors

As discussed in the governance section of this Study, currently there are boards representing both NCWD and CLWA. NCWD's Board is comprised of 5 members and CLWA's Board is comprised of 11 members. All of NCWD's Board members are publicly elected at large. CLWA's board members are comprised of 3 elected at large, 6 by division and 2 appointed directors' one representing NCWD and the other representing LACWD. The current proposal recommends that the initial board consist of all 15 members, and then reduce to a 13 member Board, 12 publicly elected by division and 1 appointed, with the opportunity to reduce to 9 members over time. **Table 4-1** below analyzes the potential efficiency of combining and ultimately reducing the number of board members over time.

Table 4-1 Board of Directors Cost Summary					
	NCWD	CLWA	Separate Total	Post Integration Projection	
Directors	5	11	15	12	9
Average Annual Cost	\$105,000	\$500,000	\$605,000	\$535,000	\$400,000
Total Savings:				(\$70,000)	(\$205,000)

Note: The average cost totals in Table 4-1 are based upon the most recent past 2 years of actual expense, plus the FY 16/17 budgeted expense divided by 3. Includes stipends, benefits, travel expenses, and training. Some stipend, travel and training costs for one NCWD director are included in CLWA totals due to service on both boards as appointed NCWD representative to CLWA (also, a \$10,000 expense reduction is included for dual medical coverage which will no longer be incurred for one director). Does not include Board administrative support costs or costs to post public notices, advertise public hearings in the local media, produce packets, etc. These costs would also see a reduction.

4.2 Staffing

This section analyzes the potential savings opportunity for a new combined district. Specifically, after a review of NCWD's and CLWA's current organizational structure it is anticipated select functions could be combined resulting in economies of scale and associated cost savings in labor and benefits for the new district.

The General Managers and executive level management staff of CLWA and NCWD have reviewed the current status of their organizations as well as the potential staffing implications of creating a new district. The following observations were developed from that review and discussion:

1. The employees are a significant, valuable resource of experience, are well trained and proficiently provide important services in their respective areas of responsibility
2. The economic slowdown and slow recovery over the last 10 years have resulted in leaner than typical staffing levels for both agencies.
3. As the region continues to grow in population and number of service connections, and additional state mandates or situational needs arise, there will be some incremental increase in baseline staffing needs over time. These needs will need to be addressed with or without the creation of a new district, but could be handled more efficiently at the scale of the new entity rather than as separate ones.
4. Combining the two agencies offers opportunity to reduce positions through normal attrition (the rate at which employees naturally retire, relocate or seek other career paths), combining similar positions, and reassigning of duties.

5. It is projected that the net staff reduction could be 5% to 10%, with a mid-point estimate of 7%.
6. During the initial few years of a transition, after the new district is formed, it will be important to have staff engaged in the process of effectively integrating the functions of the new combined organization while continuing to provide a high level of service internally and externally.
7. Fortunately, many key staff have worked for one or more of their counterpart water agencies during their careers. For example, a staff person may have started with CLWA's SCWD division and taken a promotional opportunity at NCWD or vice-versa.
8. This Study proposes to achieve the staffing economies through the principles of normal attrition, reassignment and absorption where appropriate.

Table 4-2 below presents the stand-alone pre-integration staffing resources for the retail portion of CLWA (the Santa Clarita Water Division) and NCWD, compared to the post-integration estimate for the new water district. In addition, a common industry metric is to measure the staffing resources for retail water service as a factor of the number of employees per thousand water accounts or the population served per employee. Typically, larger agencies experience greater economies of scale, which results in fewer employees needed to serve the respective number of water accounts or population. Systems that are more dispersed, contain a larger proportion of facilities requiring maintenance, also tend to require a higher staffing level.

Table 4-2				
Retail Water Service – Economies of Scale				
	SCWD*	NCWD	Current Total	Projected Combined Retail Service
No. of Employees	62	30	92	86
No. of Accounts	30,681	9,746	40,427	40,427
Employees per thousand retail connections	2.0	3.1	2.3	2.1
Population	122,700	45,000	167,700	167,700
Population Served Per Employee	1,979	1,500	1,823	1,950

Note: *The SCWD employee count includes 4 Full-Time Equivalent (FTE) shared employees with CLWA.

Table 4-3 below provides an illustration of a smoothed reduction transition. Figures are shown here for the combined NCWD and SCWD retail functions as well as the CLWA wholesale functions. It is estimated that over a three-year period, a reduction in staff of up to 11.9 Full-Time Equivalents (FTE) could be accomplished while maintaining the existing level of service. The new district integration could also be accomplished over a longer time period or the staff reduction could be reduced in order to increase the level of service provided by the new district, but full integration with optimized staffing levels would provide the greatest savings to ratepayers.

Table 4-3 Overall New District Organizational Efficiency Estimate			
CLWA, NCWD, & SCWD	Staffing Existing	Staffing Combined (FTE)	Efficiency (%)
Year 1	170	166.6	2.0%
Year 2	170	163.2	4.0%
Year 3	170	158.1	7.0%

Salary Comparison: To fully understand the cost impact related to staffing the new district a review of salaries, benefits and associated costs was completed. The following analysis is based upon the principle that the creation of the new district should not have a negative impact on the salary or benefits currently received by either NCWD or CLWA employees. A recent comprehensive study performed for CLWA by Koff & Associates, dated July 2015, illustrates that the salaries for NCWD and CLWA are comparable, both with each other, as well as when compared with several other similarly sized agencies. For that reason, a separate duplicative analysis was not performed as a part of this Study. To be conservative, a 5% increase in salary assimilation cost was included for the purposes of comparison in **Table 4-4** below.

Benefit Comparison: In regards to benefits, both NCWD and CLWA have similar, but not identical benefit plans. The main differences between the plans are as follows:

1. NCWD employees pay a portion of the CalPERS retirement plan cost (currently 4.551%);
2. NCWD employees pay 50% of health care premium cost for dependents if they choose dependent coverage;
3. NCWD new hires are provided a defined contribution match of up to \$700 annually in place of being eligible for Other Post Employment Benefits (OPEB). All other NCWD and CLWA employees may be eligible for OPEB depending on their length of service; and

4. CLWA employees do not participate in Social Security, resulting in a CLWA employer match tax savings.

For purposes of the analysis included in this Study, the initial assumption is that the 30 existing NCWD employees would receive comparable benefits to the CLWA employees. A goal of the new district would be to assimilate all employees to equal salaries and benefits. To ensure equitable pay for similar work, the new district would need to quickly perform a series of classification, compensation and organizational studies. These studies will be intended to develop the most appropriate position descriptions for the new district as well as the appropriate compensation. For the purposes of the analysis included in this report, the net cost of the assimilation of salaries and benefits is estimated at \$300,000 based on the items identified above. The assimilation cost is included in the projection for efficiencies shown in **Table 4-4** below.

Future Employees: As CalPERS agencies, both NCWD and CLWA are covered by the Public Employees' Pension Reform Act of 2013 (PEPRA). A new employee brought into CalPERS membership on or after January 1, 2013 falls under a new defined benefit formula with a later retirement age for full benefits, as well as a specified employee contribution level. There is also an inflation adjusted cap on pensionable compensation. This is expected to reduce overall district costs for new employees of a potential new district.

Table 4-4 below summarizes the anticipated savings realized by staffing efficiencies gained through the creation of the new district. Salaries and Benefits identified in the table include; salary, retirement benefits, health (medical, dental, vision, EAP, LTD, STD, life), worker's comp insurance, vacation/sick accrual, auto allowance, payroll taxes and OPEB. Full organizational integration is projected to provide an annual savings of up to \$1,299,000 per year in staffing costs by the 3rd year.

Table 4-4 New District Organizational Efficiency Savings			
Salaries and Benefits	Fiscal Year 16/17		
CLWA	\$9,763,300		
SCWD	7,461,500		
NCWD	3,744,700		
Total:	\$20,969,500		
	Estimated*	Efficiencies**	Savings
Year 1 – 1.3%	\$22,018,000	\$21,893,000	(\$125,000)
Year 2 – 3.4%	22,987,000	22,399,000	(588,000)
Year 3 – 6.5%	23,518,000	22,219,000	(1,299,000)
3 Year Total:			(\$2,012,000)

Notes: *The estimated numbers included in the table incorporate an assumed growth rate of 5% per year. **The efficiency numbers also include the assimilation of benefits added cost of \$300,000 escalated by 5% per year.

Longer term staffing needs: A key consideration that must not be overlooked is to ensure staffing levels are maintained adequately as to not negatively impact levels of service. The Santa Clarita Valley is projected to grow significantly over the next several decades. Specifically, the joint planning effort completed by the City and County, known as One Valley One Vision, projects the population of the Santa Clarita Valley will grow from the existing 273,000 people to a population of over 460,000 at buildout. This growth will result in additional water facilities to operate and maintain, and increases in the number of customers and metered accounts. In addition, several new water supply programs and related physical facilities will be constructed and operated to meet future needs. Staffing levels would need to align with this growth regardless of the formation of a new district. However, the efficiency gained through a combined retail function and an integrated regional water resource function would continue to partially offset an incremental portion of the staffing that would otherwise be required to operate as separate water providers.

In addition to growth impacts, the water industry is experiencing new regulatory requirements placed upon it by the State and Federal governments. One example, discussed more fully in **Section 7.2** of this Study is the Groundwater Sustainability Act. The water suppliers are currently evaluating the impacts of these new requirements as they relate to staffing. Upon initial review, this new law appears to require substantial staff and/or outside technical consulting resources to achieve compliance. Another example

of upward pressure on staffing requirements will be the growth of the SCV’s water reuse program. The requirements of this program will necessitate additional staff to ensure full implementation is reached. The State may also impose further water efficiency standards, which may increase the need for water conservation personnel.

The combining of staffing resources contemplated in this Study would only have additional positive impacts for efficiently achieving the examples listed above and any unknown requirements yet to come. At the same time, changes in technology may provide further improvements to productivity that can help to offset some of these factors. Furthermore, this provides for the flexibility of implementing the reassignment goal discussed earlier.

4.3 Outside Services

There are savings in addition to labor savings that are anticipated as a result of combining NCWD and CLWA into a new water district. **Table 4-5** below illustrates the potential efficiencies realized through the reduction in duplicative outside services contracts. The cost assumptions for determining outside services are based upon an average cost by taking the most recent two years of actual expense adding the current years budgeted expense and dividing by three. The average cost for both NCWD and CLWA are then combined and multiplied by a percentage savings estimate to calculate the projected savings.

Table 4-5 Outside Services Efficiency Summary					
Outside Service	NCWD	CLWA	Anticipated Savings	Combined Cost	Savings
General Counsel	\$140,000	\$350,000	28%	\$350,000	(\$140,000)
Litigation Expense*	175,000	175,000	100%	350,000	(350,000)
Legislative Advocates	80,000	300,000	21%	300,000	(80,000)
Public Relations	50,000	50,000	30%	70,000	(30,000)
Total Savings:					(\$600,000)

Note: *The litigation expense savings is included as a one-time reduction as a result of reaching a settlement agreement between NCWD and CLWA.

Table 4-5 illustrates an estimated savings of \$600,000 in year 1 and an annual savings going forward of \$250,000 can be achieved through a reduction in outside services. These estimates are believed to be conservative and have been included in the financial

evaluation provided by Mike Whipple and Associates and summarized in **Section 5.0** of this Study (see **Appendix B** for the MF Whipple Report).

Numerous other benefits were identified and discussed. These benefits would have varying amounts of savings. However, to be conservative with the summary presented in the financial evaluation, no assignment of savings was made. A partial list of additional benefits is included below:

Additional Opportunities:

Real Estate: A primary opportunity for increased revenue would be in real estate assets owned by NCWD and CLWA. It is not yet known which facilities could be sold or leased as part of a new district, however assets to be considered total several million dollars. To be conservative the additional revenue that would be realized has not been included in the financial benefit analysis included in this Study.

Others:

- Reduced property and liability insurance
- Reduced engineering cost
- Reduced information technology costs
- Reduced banking service fees
- Integrated training opportunities
- Combined outsource billing savings
- Combined software purchasing savings
- Combined monitoring and laboratory service savings

Moreover, see **Section 6.0** of this Study for a detailed operational analysis, which identifies several other potential benefits, which would result in additional cost savings.

There would be some one time implementation cost to transition to the new district. These costs will likely result in temporary increases to attorney and consultant costs to adopt new (or “re-adopt” existing) policies, salary and benefits contracts, employment agreements and policies, financial institution agreements, insurance policies and contracts. Additional items would include costs to transfer assets and real estate to the new district, as well as to provide new signage and stationary items.

Table 4-6 below illustrates the estimates of these costs to be \$250,000 in year 1 and another \$250,000 in year 2. There are no additional formation costs estimated to be incurred in year 3. Therefore, a total of \$500,000 over the 3 years is estimated as a result of the creation of the new district.

Table 4-6 New District Formation Cost Summary	
	Formation Cost
Year 1	\$250,000
Year 2	250,000
Year 3	0
Total:	\$500,000

4.4 Conclusions and Recommendations

The organizational analysis indicates the creation of a new single district through combining NCWD and CLWA could result in significant savings. This Study proposes to achieve the staffing economies through the principle of attrition, and based upon the principle that the creation of the new district should not have a negative impact on the salary or benefits currently received by either NCWD or CLWA employees.

Table 4-7 below compiles the projected savings and costs resulting from the creation of the new water district. The amount of savings is projected to increase in each of the three years as more reductions in staffing levels are achieved through attrition and as the formation costs are completed.

Table 4-7 Total New District Organizational Savings by Year					
	Board	Staffing	Outside Services	Formation Cost	Savings
Year 1	(\$0)	(\$125,000)	(\$600,000)	\$250,000	(\$475,000)
Year 2	(70,000)	(588,000)	(250,000)	250,000	(658,000)
Year 3	(70,000)	(1,299,000)	(250,000)	0	(1,619,000)
Total:	(\$140,000)	(\$2,012,000)	(\$1,100,000)	\$500,000	(\$2,752,000)

It is estimated over a three-year period, a reduction in staff of up to **11.9** full-time equivalents could be accomplished while maintaining the existing level of service. When combined with a reduction in the board members and outside services contracts it is projected over a three-year period to save a total of **\$2,752,000** with an ongoing savings of up to **\$1,619,000** per year of the new district.