

Operational Excellence and Compensation Brief

March 2023

History: The initial objective of the district was to develop a cohesive collection and treatment service largely from purchased independent private treatment systems. Activities then focused heavily on engineering and construction and the development of qualified O&M staffing. With the initial objectives largely complete and a wide range of emerging needs and challenges, a more comprehensive business strategy with a focus on cost effective service and value-added growth is needed.

In 2019, the BOT approved an ad-hoc committee (OEC) to work with management on operational issues. The original concept for the effort was project-centric, focusing on plant operations and engineering, plus diving deeper into issues and possible solutions for Board consideration. The COVID pandemic disrupted regular meetings of the OEC for two years.

More recently, the BOT directed management to develop a business strategy to further the mission to provide cost effective, reliable service. The timing for this directive is becoming increasingly acute as senior staff is retiring, the private sector is making inroads into the County, and the interface with the City is becoming more entangled. To fulfill the BOT's directive, the OEC has expanded its focus to drive this larger initiative. The Board reaffirmed the OEC structure and goals in 2022.

OEC Plan: The current structure of the district and the focus and skills of staff are not positioned to respond to the broader business objectives being set by the BOT. Therefore, the OEC began a multi-step plan to better meet the objectives of the district. The key steps are as follows:

1. **Mission Statement:** After development in the OEC, the Board approved the current mission statement in 2022.
2. **By-Laws:** In late 2022, the Board approved revised by-laws, which had not changed substantively since the district was initially created. The updated by-laws better reflect the roles and responsibilities of the BOT and staff.
3. **Organization Structure:** Establish a management team with point-source accountability for critical functions. The OEC, in concert with the management team, is in the process of defining and assigning accountability for the critical functions necessary to: a) fulfill the mission of the district; b) assign roles and responsibilities for supporting managers and staff (RACI matrix); c) manage in-sourced and out-sourced activities, and d) develop and maintain a competitive compensation plan to recruit qualified staff and provide a pathway for advancement for high performers. The final organization chart and assigned critical functions will be presented to the BOT for consideration. Upon approval, job descriptions will be updated for accuracy and metrics for all staff will be provided.
4. **Quantify Costs:** The OEC and staff have had conversations about the need for measurement in order to quantify the costs of and resources needed for specific activities of the district. A time and resource tracking system has been developed and will be tested in 2023. Management and the BOT must know the amount of treasure (money and time) expended in connection with an on-going or proposed project or initiative in order to evaluate how it fits into the operating strategy and analyze costs/benefits.
5. **Continuous improvement philosophy:** Once able to quantify costs, the OEC and staff will develop district-wide strategies and individual actions to continuously improve on the delivery of services.
6. **Business strategy:** Align current activities and pursue new activities that complement the district's mission.

Staffing History: Prior to 1985, staff for the district was primarily provided by the County and Boone Electric. The current GM was hired in May 2000. In 2004, an outside consultant was used to develop/finalize twelve then-current job descriptions of the district, which included three management/administrative positions and nine operations position. A salary study was also completed, which established then-current salary ranges for those twelve positions. For several years thereafter, the Board attempted to provide incremental salary changes, merit and/or cost of living, to maintain salaries within their respective ranges.

Since 2004, an additional nine job descriptions have been added. The positions, titles, job duties and salary ranges were developed in-house. The positions were variously created between 2007 and 2021. The positions were not part of an independent or overall analysis of how potential responsibilities and salary fit into the existing hierarchy. Some positions have not been filled. Some are proposed to be discontinued.

Human Resources Function and Programs: The BOT has always endeavored to provide a competitive compensation package (wages and benefits), in order to attract new talent and retain competent employees. In today's competitive business environment, the district has been able to recruit and retain staff, in both management and operations, which suggests that the district's current wage scale is competitive. This is only, however, anecdotal evidence with regard to hiring.

Management has not completed a compensation study as requested by the Board. This is an important action item. An independent review of the district's compensation plan will:

1. Provide current comparison of the district's total compensation package to other employers competing in the same hiring pool. Meaningful adjustments and enhancements can only be considered with such information.
2. Provide current information on common practice or policies to help keep the district's wages competitive, including information to develop policies on cost-of-living adjustments.
3. Provide information necessary to develop policies relating to merit increases, including reasonable and equitable allocation of merit pools based on performance.
4. In addition, fringe benefits should be reviewed. The projected budget for 2023 reflects 34% of projected salary going to fringe benefits inclusive of medical, life, dental and disability insurance, as well as retirement. A detailed review would include determining if fringe benefits are adequate and competitive. Further, analysis of the district's retirement plan should be undertaken to evaluate whether district retirement plans meet current law and how district contributions compare to peer groups. This should also include an analysis of the pros, cons and costs related to a defined contribution vs. a defined benefit plan.

Compensation Package is Significant Component of Rate Strategy: Employee compensation is approximately 25% of the annual expense budget for the district, and is a significant factor in user rates necessary to operate the system. Further, adequacy and competency of staff is an important consideration in decisions to undertake new projects or initiatives, such as providing outside services on a contract basis.

The Board should therefore move forward with a compensation study, with a goal of completion in 2023. The first step will be to gather information in order to develop an approach, define the process to procure outside consulting assistance, as and if needed, estimated costs and timing. The OEC believes that this should be undertaken by the OEC, with the assistance of appropriate district staff.