

**City of Lima, Ohio Utilities Department**  
**The Road Less Traveled: Establishing Performance-based Pay for the Entire Utility**

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**ABSTRACT**

In 2002, the City of Lima Utilities Department (Utilities Department) initiated a leadership development effort as part of their *Competitive Reorganization Plan* (Comp Plan). Significantly, the plan included middle-management training, less attended facilities through process control enhancements and mechanical improvements, merging distribution and collection system field operations, moving to a new building, and rolling-out skill-based pay to all divisions. Given the complexities of a public multi-service utility (employing 101 people to provide water and wastewater services), and the often limited internal resources, launching the changes needed to develop leadership as laid out in the business plan required extraordinary focus, structure and patience. The effort has taken seven years to achieve the intended outcome, including: an improved and more autonomous middle-management team, an established progression path for leadership and skilled-based pay as standard employee expectation. This paper describes the Utilities Department's strategy for improvement, which at the core includes an unwavering determination to pay employees based on the level of their skills and the merit of their performance, therefore establishing a measureable system of reward and responsibility within this public and unionized organization.

**KEYWORDS**

Reorganization, skill-based pay, performance-based pay, performance management, strategic organization, Competitive Business Plan, Competitive Reorganization Plan.

**INTRODUCTION**

In 2001 the City of Lima developed a *Competitive Reorganization Plan* (Comp Plan) that would be the roadmap for realizing improvements to the Utilities Department. This plan was the culmination of years of effort to document the path necessary to keep the utility competitive and in the public sector. The plan was based on applying best practices of both the private and public sectors.

The impetus for the Comp Plan was a 1996 Study (Lima Utilities Competitive Assessment) performed by EMA, St. Paul, MN which presented a \$1.1 million competitive gap as compared

to “best of class” privately operated utilities. In addition several “managed competition” or privatization proposals were presented to the Mayor, City Council and Utilities Department leadership for consideration.

One of the key components in the Comp Plan was to develop skill-based pay (SBP) for the staff at the Utilities Department. The purpose of the skill-based pay initiative was to “achieve a more flexible, multi-skilled workforce to optimize the utility.” That goal was prevalent throughout each of the elements that the city undertook since 2001.

The success of the effort to give every department access to skill-based pay began with the strategic decision to build a culture of continuous improvement. Starting with the middle managers, the Utilities Department began to optimize its business practices and to secure improved performance and cost savings as a result. They defined new expectations of managers through facilitated sessions identifying: (1) current challenges faced by managers (2) manager’s changing role in the new organization and, (3) the professional skills needed for a successful transition. Outcomes from these sessions included greater accountability and enhanced support for managers, a description of the activities required in each position allowing for the beginning of their skill-based pay efforts; and improved utility competitiveness.

## METHODOLOGY

The Comp Plan was developed by the Utilities Department Director and the Administrative team and proposed to the City in March 2001. Figure 1 shows the timeline for the major activities associated with the *Competitive Reorganization Plan*. The goals were to provide a clear organizational structure for the Utilities Department to achieve greater operational efficiencies with lower operating costs; reduce chances of privatization; and position the utility to adapt to changes in the workforce and workplace. To meet those goals the Utilities Department focused on core areas for improvement, which are described in more detail in the following sections.

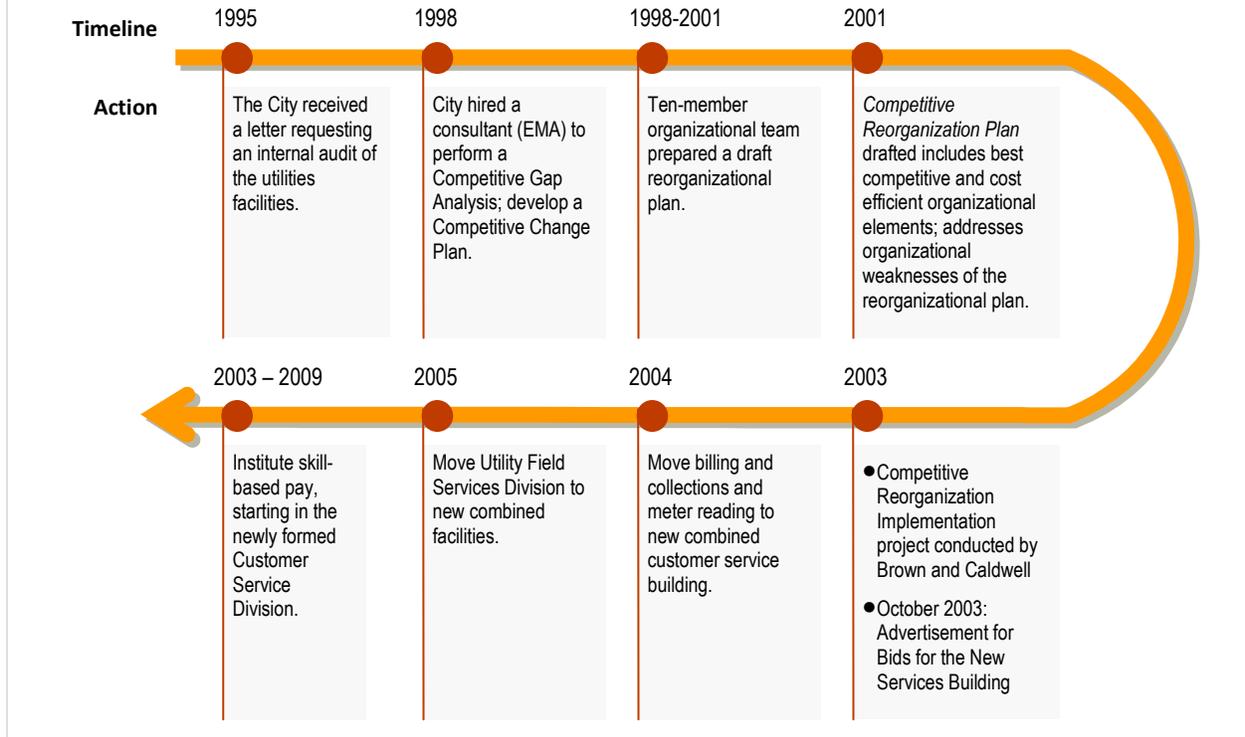
- Organization as a strategy
  - Staffing for normal operations while importing services for heavier needs
  - Removing silos for a flexible workforce
  - Operating with unattended / less attended facilities
- Performance management applications
  - Moving toward a directed team-based management effort



*Lima Utilities Department employees helped drive the department to a new, competitive future.*

- Developing metric and process measures
- Maintaining equipment with program driven maintenance

Figure 1. Timeline of events related to the Utilities Department *Competitive Reorganization Plan*.



## Organization as a Strategy

As part of the Comp Plan organizational strategy the Utilities Department merged several functions from various divisions and sections creating the Utility Field Services (USF) Division. Water distribution and sewer maintenance functions were transferred to USF and the former Water Distribution and Sewer Maintenance Divisions eliminated. This organizational structure would provide the backbone for developing a flexible and cross-trained workforce and the ability to “staff for the norm and import for the crisis.”

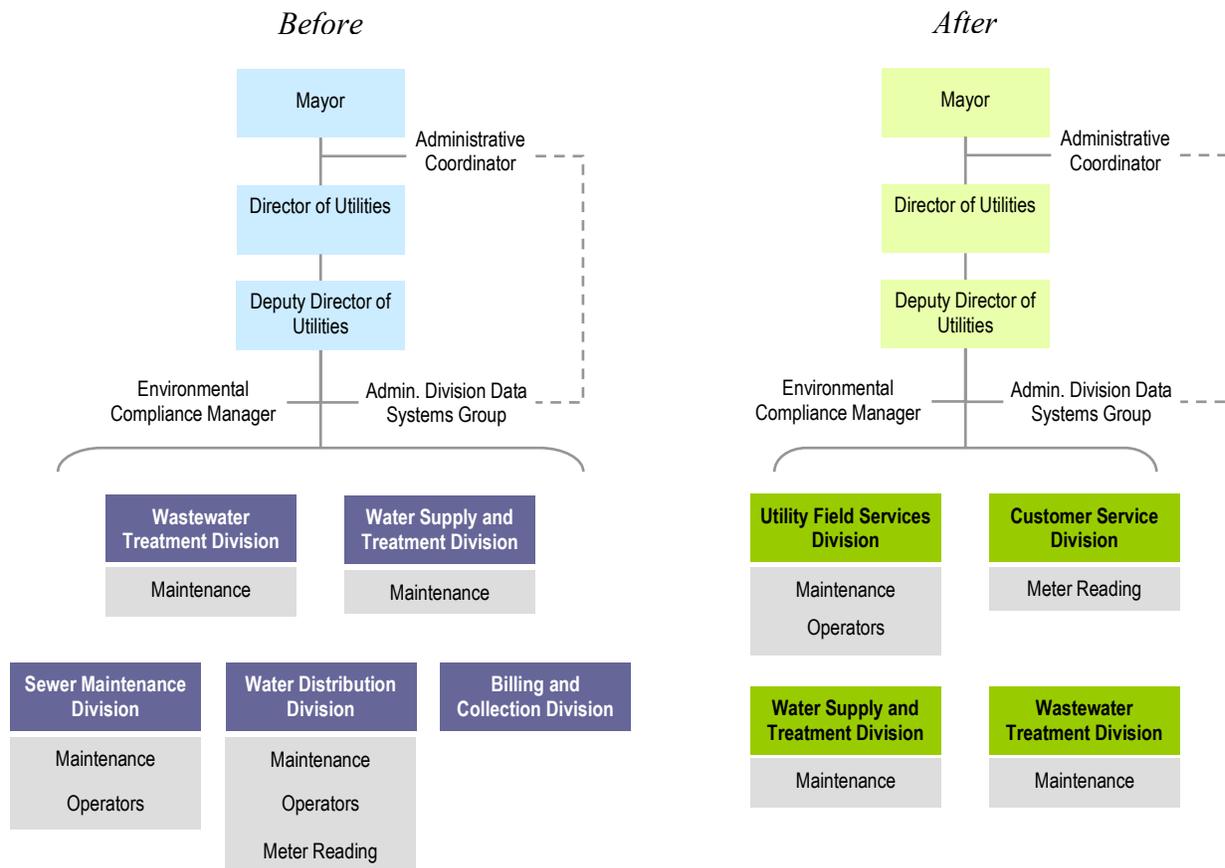
The old separate facilities for both water distribution and sewer maintenance functions needed improvements. Instead it was decided to build one new building large enough to house staff and equipment for both. That decision also combined the employees into one shop, cross-trained to perform both functions. In 2003 the building was advertised for construction, and in December 2004 the new building was completed with employees moving in January 2005. (Before and after photos are shown in Figure 2).

Figure 2. Moving from the old facilities to the new combined facilities provided a home for all the Utility Field Services employees.



The Department also reorganized the Billing and Collection Division and integrated the meter readers from the Water Distribution Division into one centrally housed unit, renamed the Customer Service Division in 2004. The employees were also re-designated to one classification, again, allowing for a more flexible workforce.

Figure 2. Organizational charts showing the reorganization before and after the new buildings.



## Performance Management

The strength of an organization is through measurement of work performed. Its customers, both external and internal, measure the ultimate success of the Department. A good way to ensure that the customers' needs are met is to develop a set of anticipated actions, or service levels, that the customer feels are important to them. Building on the move toward organization change (including field services restructuring), employee performance was tied to measures and skill sets. As detailed in the Comp Plan, skill-based pay was recommended for the department, and performance based pay was recommended based on meeting metrics. This performance management development was a critical step in following the Comp Plan.

Skill-based pay was a key to realizing the goals set in the Comp Plan. It involves compensating employees for demonstrated and defined skills. SBP includes various levels for each division: at the learner, applier and mentor levels. The "learner" works under supervision with clear direction; the "applier" works independently yet still within a team and assumes some responsibility for that team effort; the "mentor" takes responsibility for the team (or project) and directs the actions of others. The employees would be assessed annually to determine their progress and decide on promotions if applicable.

- To move within career stages: the employee must demonstrate 75 percent of the current stage to be advanced to the  $\frac{3}{4}$  skill step for that career. When the employee demonstrates all the skills in the stage, then she is automatically moved to the next step in that stage.
- To move between stages, the employee must demonstrate all of the skills in that stage plus 50 percent of the new stage.

That structure was designed to fairly compensate employees for their services and allow for movement within that structure to promote career development. Central to the execution of SBP was restructuring and re-describing the jobs in each division. Each division manager was asked to detail the required skills of their staff and the status of the people. This would be a baseline for demonstrating competencies and progress. Each of the division's SBP efforts is summarized in the section below.



*Division managers and union representatives worked together with Brown and Caldwell to develop the performance management components set in the Comp Plan.*

## RESULTS

After the facilities were completed – the new customer service building and the new field services building – the utility began the process of putting in place the necessary components of SBP. This included documenting the skills in each division, setting the baseline of where the employees stood regarding those skill sets; re-writing the job descriptions to allow for cross-

functionality and career development; working closely with the local unions; and getting buy-in from the City that SBP could save the utility resources in the end.

After collaborating with union representatives, division managers and employees, all departments now have some level of skill-based pay instituted. Some have received increases due to SBP, though to date, none have lost pay due to loss of skills. The results of each division are shown below.

### **Piloting Skill-based Pay: the Customer Service Division**

The newly reorganized Customer Service Division was the first major division to experience SBP. The administration focused first on that division as it was suffering from a high employee turnover rate. As the Customer Service Division was the first full division to go through the process of incorporating SBP into their daily operations, they have the most results available for discussion. The division has noticed and recorded significant changes and improvements in operations since the pilot program started in 2003. The staff of 10 have decreased turnover, empowered staff, measured performance indicators, and increased employee initiative. Those and other noticeable improvements are discussed below.

- **Decreased turnover:** Before SBP was implemented, the division experienced heavy employee turnover. After the program was implemented the division has retained more staff. The Customer Service Division averages 12 years of experience per employee.
- **More empowered staff with increased initiative:** All positions in the division are now Customer Service Specialists. This has enabled much greater flexibility in staffing and handling the variety of tasks performed in the division. This includes meter readers – those Water Distribution Division employees were integrated with the Customer Service Division. Another area in which staff can add skills to increase their pay grade.
- **Increased job flexibility:** employees that once had extremely narrow job descriptions can now perform a variety of functions within the division: from billing, to meter reading to office oversight. Each of the employees in the division now feels comfortable to move from job to job, as needed to help out coworkers and the customers.
- **Reduced unnecessary tasks, streamlined office procedures:** Some tasks performed were streamlined – new office procedures allowed previous tasks to be altered or eliminated (move toward electronic records keeping, reduction in duplicate forms, etc.). Since the staff has acquired numerous new skills, positions that were extremely narrow in job requirements could be left open, rather than filled when vacant.
- **Measured performance indicators:** Skills required for the step increases are predefined and agreed to by the utility and the union. The process includes input from the supervisor and peers. Allowed the utility to eliminate two probationary employees since they did not meet the expected skills and goals set forth in the SBP. There are 44 skill sets in the Customer Service Division. Half the employees (four of eight) have accomplished 90 percent of the possible skills.

## **Data Systems Group**

The Data Systems Group was the first group to undergo the skill-based pay initiative. The group is responsible for maintaining the information systems in both the Utility and the City. They maintain servers, computers, plant automation upgrades, and peripheral equipment throughout the city. There are 97 skill sets that the Data Systems personnel could acquire. To date, they have achieved 51 percent of the possible skills.

## **Wastewater Treatment Plant**

The Wastewater Treatment Plant has accomplished a 27 percent reduction in staff since the implementation of the Competitive Reorganization Plan. This has obviously increased the responsibilities of the remaining staff and management. Furthermore the division has taken on additional responsibilities: maintaining 29 lift stations, and operating the compost facilities. There are 128 skill sets that 19 personnel at the plant could acquire. To date, they have attained 54 percent of the possible skills.

## **Water Treatment Plant**

At the Water Treatment Plant, a 29 percent reduction in personnel has been realized since the Comp Plan. To help overcome those losses, and move toward fully utilizing SBP, the staff is learning many new tasks. Several are ready for increases in pay grade based on their newly-learned skills. To date, 61 percent of the 82 possible skill sets have been learned by the 18 Water Treatment Plant staff.

## **Utility Field Services**

One of the outcomes of the Comp Plan was the merger of the Sewer Maintenance Division and the Water Distribution Division. Combining the building and the personnel has resulted in a streamlined Utility Field Services Division. Since that time the division has seen an 18 percent reduction in personnel. Before the merger only 3 percent of the employees held dual water and sewer Class II licenses. Since the merger the number has increased to 45 percent. There are 132 skill sets that 34 Utility Field Services personnel could acquire. To date, they have achieved 51 percent of the possible skills.

## **DISCUSSION**

When the Department completed their reorganizational efforts and instituted SBP in each division, they realized a significant portion of their *Competitive Reorganization Plan*. Those two accomplishments have helped the employees at the Utilities Department adapt to the changing economy and community needs.

Since SBP was initiated, sometimes rigid job descriptions that would not allow employees to perform tasks outside their grade are now open and allow those same employees to volunteer to learn new skills that will help the utility to be leaner and more competitive and help those employees increase their pay grade.

There are, however, additional needs before the Department can consider the Comp Plan fulfilled. The salary employees (management) are not eligible for SBP at this time. Providing a means for compensating them based on either their skills or performance is the next step to achieving a fully-competitive workforce. And demonstrating that SBP is a two-way street is also important to its integration into every-day use. This would involve removing pay if an employee's skills are lost – through lack of regular use or practice, an employee may no longer be able to perform a previously learned skill.

The Department is also looking to further refine their SBP to be linked to the four perspectives of the balanced scorecard, customer, work processes, financial, and employee learning and growth. This would help them go beyond skill-based pay and move into the realm of performance-based pay.

The Comp Plan targeted staffing level for the Utility is 101 employees, reflecting a reduction of 24 employees from 1996 staffing levels prior to the Competitive Change Initiative. The management to employee ratio will better approach a “best practice” at 1:7.4 from the pre-initiative of 1:4.5. The (1:7.4) manager to employee ratio is critical to develop and sustain a highly motivated and engaged workforce which applies their skills to the tasks facing the utility.

The present economic conditions have resulted in the Lima Utility Staffing being at 86 employees. The cause is our inability to hire new or transfer employees from other divisions in the City due to the economic conditions in the City's General Fund. The new organizational structure and SBP initiative has provided a flexible, highly skilled workforce capable of managing the service demands being experienced by the utility.

## **CONCLUSION**

As part of the *Competitive Reorganization Plan* the Utilities Department wanted to do everything they could to keep the skilled people they already had, attract new people to the workforce, and encourage those same people to develop new skills – helping the city build a lean, flexible, highly-skilled workforce. As part of that journey, the City looked to organizational strategies and performance management to help them find and keep the right people.

The Department's reorganization efforts combined with skill-based pay has helped Lima Utilities build a more independent and resourceful workforce. This is all the more important in difficult economic times such as these, when city budgets tighten and city employees reach retirement age. Each of these improvements would be significant on its own; put together, they show a utility far ahead of many other progressive utilities and now a truly competitive workplace.

An October 2007 analysis submitted for Mayoral review continues to confirm an annual reorganizational savings of \$1.5 million for each and every year. Even with the full-cost application of SBP and funding the performance merit pay at the present 5 percent of wages the reorganizational savings is projected to be \$1.2 million annually.

In closing, the considerable effort, required improvements and “Change Manager” consulting costs were well worth the resulting efficiency and organizational improvements the Lima

Utilities Department has experienced through this Competitive Reorganizational Process. The Process is ongoing with additional work being done on application of Balance Scorecard to Performance Metrics along with implementation of Reliability Centered Maintenance (RCM).

## **ACKNOWLEDGMENTS**

Thank you to the many employees at the City of Lima who contributed to this paper. And a special thank you to Dale Seibert, Administrative Technician at the City of Lima, who provided the data from which much of this paper was derived.

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