N-06d

City of Troy

HydroDesigns

Analysis of Outsourcing Cross Connection Controls

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Conclusion of Analysis

Since there is not a financial benefit, nor an organizational benefit to outsource the Cross Connection Controls, it is the recommendation of the Superintendent of Water & Sewer, Department of Public Works Director, and Coordinator of Continuous Improvement, to keep the Cross Connection Control in-house.

Background

In the summer of 2011, the Coordinator of Continuous Improvement, Superintendent of Water & Sewer, and Department of Public Works Director met with HydroDesigns to discuss what the company does and what services they can perform for the City.

HydroDesigns has its corporate headquarters in Troy. The company handles cross connection controls which include: program management, surveys/ inspections, data management, compliance reporting, and technical training.

Financial Impact

The financial analysis indicates that it may be financially detrimental to outsource the Cross Connection Controls.

HydroDesigns proposes taking on the Cross Connection Control for $72,000 annually for a minimum of three years for a total of $216,000.

The City currently pays one (1) full time employee to handle the Cross Connection Control. Looking at a five (5) year trend, the Cross Connection Program has cost approximately $95,000 annually. At face value, it would seem that there is a potential for savings. Further analysis indicates other functions need to be considered.

The current cross connection employee performs other duties that would need to be absorbed or outsourced.

Other Duties:

Site plan review, monthly water sampling for schools, lead and copper sampling for the city, and testing/ maintenance of the city owned backflow devices would be approximately $10,000 annually to outsource.

Recently the full time employee has also taken on Disinfectant Byproduct testing. This is approximately $3,200 to outsource.

About 15% of the Cross Connection employee's time is used for the following functions:

1) Rental of water meters and backflow devices for fire hydrant usage by contractors

2) On call inspector for major snowfall events documenting contractors performance

3) He watches the miss dig print outs for activities requiring building permits or backflow devices

4) Provides sprinkler ordinance educational materials to water customers throughout the city

5) Customer service on items outside the cross connection whelm

6) When inspecting, keeps an eye out for fire service lines that are not being properly charged

7) He is authorized to issue court appearance tickets

It is the opinion of the Superintendent of Water & Sewer, and Department of Public Works Director that someone would have to be hired to take on these extra tasks as a cost of approximately $13,000 a year.

Financial Calculator:

	HydroDesigns	**City of Troy**
	$72,000 annually	$95,000 annually
Other Contractor	$10,000 outsource city-owned maintenance	
Other Contractor	$3,200 Disinfectant Testing	
Other Contractor	$13,000 extra tasks	
Total Financial Impact	**$98,200 Annually**	**$95,000 Annually**

With all tasks considered it would be a financial detriment to outsource this function.

Other Considerations/ Intangibles:

Our current full time employee, Matthew Kapcia, is a master plumber, a certified tester of backflow devices, and a licensed contractor. He has sat on the Michigan Backflow Association Board for the last decade and teaches classes for the association and the Michigan Department of Natural Resources and Energy (MDNRE). He sat on the committee that rewrote the Cross Connection Rules Manual for the MDNRE in 2008. During my discussions with HydroDesign, John Hudak, President and COO, admitted that there is not a better person to handle cross connections controls than Matt.

It is important to focus on the reasons an organization should outsource. The goal is ***to be able to provide the same (or better) level of service at a reduce cost to the residents.*** The same level of service *may* be accomplished with HydroDesigns (and other contactors that would need to be hired) but there would not be a savings to the residents.

HydroDesigns gave us a list of seven (7) "Common Reasons Companies Outsource" (see attachment 1). Using their list, there is no reason for us to outsource at this time.

Conclusion of Analysis

Since there is not a financial benefit, nor an organizational benefit to outsource this function, it is the recommendation of the Coordinator of Continuous Improvement, Superintendent of Water & Sewer, and Department of Public Works Director to keep the Cross Connection Control in-house.

As the city carries on with its "Continuous Improvement," this item will be reviewed again at a later date.

American Water Works Association

Attachment 1

DSS Conference, Phoenix, Arizona
September 17-20, 2006

Common Reasons Companies Outsource

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Function difficult to manage/out of control
7. Share Risks

Top Factors in Vendor Selection

1. Commitment to quality
2. Price
3. References/reputation
4. Flexible contract terms
5. Scope of services
6. Value added capability
7. Cultural Match
8. Existing relationship
9. Location

Top Factors for Successful Outsourcing

1. Understanding of entities goals and objectives
2. A strategic vision and plan
3. Selecting the right vendor
4. Ongoing management of the relationship
5. Properly structured contract/agreement
6. Open communication
7. Executive support & buy-in
8. Use of outside expertise

Source: The Outsourcing Institute, http://www.outsourcing.com Survey of Current and Potential Outsourcing End-Users. The Outsourcing Institute Membership, 1998