

"People" disaster planning is more difficult and just as important as "natural" disaster planning

Someone pointed me towards an interesting human resources Web site the other day with a review of a new book on small business disaster recovery. The suggestions were excellent: review insurance policies, develop a contingency plan for key suppliers, back up data, etc. And as is often the case with most of my client rural utilities, it made me sigh longingly and think of what a luxury it would be to have enough warm bodies to implement a plan like that. The reality however, is that a huge percentage of small rural utilities still struggle with finding enough warm bodies to serve on their boards or councils, let alone enough people to staff operational emergency redundancy.

Let's face it – small utilities are generally "dinged" by auditors because of "a lack of segregation of duties." Well in the perfect world (where auditors would also finish the audits on time and never charge for them!), the utility would have one person retrieving the mail, another opening it, another person completing the deposit ticket and another person collecting user payments. All this in a town of 300 people where one person handles ALL office duties including billing, new service applications, answers phones and is probably a part-time librarian, full-time wife of the local volunteer fire chief – and oh yes, makes the coffee for the board meetings and sweeps up! This two part article is going to focus on this world, (known as the real world) where losing that person or other key people can be the biggest catastrophic failure the utility ever faces, and it is possible that the utility may NOT be able to recover from that loss. There are some innovative and practical ideas that boards can implement to avoid these problems. But first, the boards or councils have to realize that there is a problem.

Actually before that, boards and councils have to determine what type of management exists. Is it Type A where the board/council actually handles day-to-day management issues? That's where the board/council

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president gets frequent calls from the operator, where there is probably one operator and his assistant and an office clerk. The type where the entire board/council sits down each month and decides what kind of truck to buy or whether or not to roll over their CDs. Or, is it Type B, where there is an actual manager, who supervises the plant operator, his assistant and the office clerk and reports to the board council each month? Each of these models creates its own set of challenges, so it is important to identify the baseline factors as part of solving different problem scenarios.

The following are some scenarios that have actually occurred with utilities I have represented and which continue to occur across the country with small utility systems. I would like to point out that these utilities all appeared to be in good shape. They provided safe drinking water to customers, had decent cash flow and generally complied with regulatory standards. None of them looked as if they were on the brink of disaster. But then a "people problem" occurred and exposed the underlying problem with the utility. As far as I am concerned, "people" disaster planning is more difficult and just as important as "natural" disaster planning.

The unexpected death of the indispensable operator

Scenario One: A small rural water utility with several hundred customers, self-reading their meters, and a well-meaning but under-informed Type A board. Junior, who probably never had a formal title, but was sort of the main field operator, had been with the utility about 30 years; he suffered a heart attack and tragically died. He had been the first employee they ever hired. He had incredible field experience and knew where every pipe in the ground was and how to troubleshoot every glitch in the system. At the time of his death, he had a very nice young guy working under him fulltime for a couple of years and a part-time guy

as needed for the “heavy labor” which due to his increasing health problems he had been unable to handle. Junior held the license for the system as neither of the younger guys had completed their training yet and the board had never pushed to have them get it done. The utility also had no real map of the system, so Junior was the only one who really knew the location of all the pipelines or where the actual utility boundaries were for that matter. This was a utility without a true manager, so Junior and the office clerk each kind of did their own thing and reported to the board each month. The board president would get a call if there was an unusual problem that Junior couldn’t handle. Junior’s unexpected death left the entire utility in crisis mode as well as saddened by the loss of a long time colleague.

Outcome: I had worked with this utility for several years and had been asked not to rock the boat. They weren’t in growth mode, and in fact were still paying on their original USDA loan. They were all about maintaining the status quo. I would be asked to handle any new regulatory matters that cropped up and help the board understand the impact of various issues such as primacy fees, rate increases (which were rarely ever considered) and Consumer Confidence Reports. I would actually prepare the Consumer Confidence Report as well. I also helped the office clerk make the decisions on software upgrades and prepared a very basic budget. The board had been unwilling to hire a manager with a license to replace Junior out of respect for his long service to the utility. They didn’t want to make him feel as if he was being forced to retire. The reality was that I had performed many of the functions of a manager and that this utility needed both a manager and a field operations manager and it needed to expand its service into surrounding areas. Junior’s death was the immediate problem, however, and with no transition plan in place, the board was at a loss. We checked with the state and after getting their permission, asked a neighboring utility that was only 50 miles away if we could operate under their license. They agreed and also allowed us to pay them to have their field operations manager come over once a week to help with operations for a few weeks and

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help with emergency repairs. Then the board had to decide what to do long term. Despite my recommendations, they were unwilling to raise rates enough to hire a both true manager and a qualified field operator. They just wanted another Junior, as one board member put it. The younger guy who had worked under Junior agreed to continue to operate the system as best he could until he could study for and take the operator’s exam. However, we had to stop our plans for a water line loop indefinitely because he did not have the expertise to handle that. The system limped along for several months but ultimately the young guy was too overwhelmed with getting conflicting orders from board members and trying to fill Junior’s shoes on a daily basis; he quit. The utility had failed to capture Junior’s wealth of knowledge and system history and it was not realistic to expect one person to fill that void, especially when the existing staff were not really capable of running the system without outside help from me even when Junior was alive. With odor and rust complaints that went unsolved

due to the water line loop delay, increasing demands upon the board for day-to-day decisions, and no response to their “Help Wanted” ads, sadly the board basically folded. They were vulnerable to a takeover bid from a for-profit utility management company. I say takeover bid, because in this situation, they had no negotiating strength and ended up forfeiting all control over their system. A very aggressive for-profit management company who was working with a local developer and wanted their water basically made them



a one-sided offer they couldn't refuse and did not really understand. They signed a 5-year contract and had all their remaining staff replaced by company staff, who took over all operations. The board was then instructed on how much they were required to raise rates in order to pay for the private contract. And the for-profit company was not interested in pursuing issues that the customers needed such as a new well or meter reading. Instead they focused on running water lines out to the new development. Even after the five years was up, there was little hope that the board would be able to re-take control of the utility from the company with no staff and few cash reserves left after paying for a premium service. Management by for-profit utilities will be discussed in the second part of the article, and it can work extremely well. However, in this case, it did not work out as well as hoped.

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Sally brings in her friend; they ran the system into the ground

Scenario Two: A small, Type A water/sewer utility with about 1200 connections divided between water and sewer, much like the previous system, faced a personnel crisis when they attempted to hire a manager. The office clerk Sally had "inherited" the job from her mother, the first clerk, and was quite possessive, to say the least. In fact, she named herself "Office Manager". I had repeatedly encouraged the board to create job descriptions for the

employees, clarify duties and titles, bring in outside IT help, and take other subtle steps in order to exercise some level of control over Sally. As the office part of the operation appeared to be running well and the accountant never raised any red flags, other than the "segregation of duties " complaint, I was told to let sleeping dogs lie. Honestly, the board was kind of afraid of Sally and had no idea what she really did, as she was very careful to keep them in the dark and not share information. This changed when the utility decided to offer sewer service to a new subdivision as part of a joint venture with a developer. With the construction of a new sewer project in addition to water, I finally convinced the board that they needed a full time manager. However, Sally convinced the board that she could get by with part-time help in order to keep up with all the additional billing issues for the 250 customers who would initially receive sewer service. One day, her good friend from the bank just appeared at a desk and was identified as Sally's new part-time help. She also took it upon herself to become heavily involved in the sewer construction bookkeeping and insisted on providing the data for calculating the rates for the sewer bond issuance. No one was allowed any access to the data and every time I asked, I was told by the board that Sally had it under control. Finally, bond counsel became so dissatisfied with the rate calculations that they pushed the board hard to hire a real manager for the project. As resumes flowed in, Sally shocked everyone by announcing that if she were not made the manager, she would quit. The

board actually allowed her to submit a resume but hired an incredibly qualified candidate from another state who had run a huge utility. Due to his wife's career as a university professor, he was willing to relocate to this town and accept a huge pay cut. Sally waited until the new manager was serving his thirty day notice in another state before she and her part-time assistant just failed to show up for work one day.

Solution: No one had a key to the front door. So a locksmith was called. And the fun began. The short-term problem was how to staff the office. We had a great field operations manager with a crew of guys trying to fill connection requests and to also bring the sewer customers on line as each



connection was completed. But none of them could handle office work even if they could have been spared. The board members were all volunteers with full-time jobs. I called the local temp staffing agency and was told that they had no one they could send over to a utility office. So I went over with my secretary and she answered phones and I tried to begin the Herculean task of figuring out what to do with hundreds of customer payments. I discovered that other than getting the bills out on time and appearing to produce the financial documents, Sally was a ticking time bomb. Not only had she failed to EVER purchase a single upgrade to the ancient billing software, so that it was impossible to get any technical support, it did not appear that any deposits had been made in many weeks. Thousands of dollars in checks and cash were heaped in piles in desk drawers and file cabinets. Once we checked deposit records, it looked like that was business as usual. Sally didn't like making deposits very often so she basically did it every couple of months. On a bigger scale, the rate calculations for the sewer project has been badly miscalculated and the revenues received had been commingled with water revenues. Amazingly enough the accountant had never caught any of these problems either, on her numerous visits to the office. The real surprise was when shipment after shipment of knick knacks started appearing via UPS. The driver said that had been going on for years. Apparently Sally has used the business name and credit of the utility to order these items through some special business program, and she then sold them to customers when they came to pay their bills! That did explain the profusion of scented candles and seasonal decorations in the office!

We worked for two weeks that way manning the counter and phones, coordinating connections and shut-offs with the field crew, and discovering more disasters every day. The new manager was able to come two weeks early and we started interviewing replacements. But the damage was much more extensive than the initial inconvenience. It turned out that that the cost of paying for upgrades was far more than the cost of buying a whole new billing system. But in order to run the new billing software we needed all new computers. This was also a self-read system, so it made sense to install radio read meters that were compatible with a new billing system – but the conversion would take months and we had no way to get our bills out NOW! The initial plan was to enter into a

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contract with another larger rural water utility and have them handle our billing for a year, while we addressed this and so many other issues. That worked well and we were able to focus on hiring and training a qualified clerk and cleaning up years of office mismanagement. Oh, and hiring a new accountant too! However, midway through the year, it turned out that the other utility decided to convert to radio read meters and upgrade their billing system. Ultimately, the utility decided to use the same technology as the larger utility and to outsource the billing to them on a permanent basis. This turned out to be a cost savings to both sides and led to other cooperative agreements. We had always contracted out our water line extension work because we didn't own construction equipment. Eventually, the two groups entered into a contract to do joint construction as well that provided more cost savings.

Fred can't decide when to retire

Scenario Three: A well-run rural water utility with several hundred customers had a manager named Fred; he was due to retire. He was an amazing manager. He had the place running like clockwork and we thought we had a good transition plan. He had also guided the utility through some serious territorial disputes with a nearby town and we had worked out a reasonable compromise. He held the



operator's license, and along with hiring a replacement for Fred, knew we needed to either get one of our other operator's certified, or hire a manager with a license. The problem was that Fred could not decide when he wanted to retire. Literally. He would tell the board he was going to retire in six months or a year. They would start to get ready to place ads for a new manager, and he would retract his retirement. The board was thrilled because they really didn't want to see him leave. And he apparently didn't want to go! This went on for three years until finally a new board member was elected who pushed the issue. Fred chose a date to retire and after an exhaustive interview process we found an experienced replacement manager with an operator's license, newly divorced, who wanted to move closer to his elderly parents. All was well. Fred offered to stay for a couple of weeks and help with the transition; that was when the trouble occurred. Fred just never left. He never gave up his office; he treated the new manager like his assistant and he countermanded his decisions. He still ran the board meetings too. The new manager spoke privately with the board on several occasions but they were so blinded by their loyalty to Fred that they would not take action. This went on for nearly three months until the new manager accepted a position with the same town involved in territorial disputes as their utility manager. Then Fred became very upset and decided to retire immediately. No one is still sure why his behavior was so erratic but he left right away. So now the utility was left with NO manager and no operator's license.

Solution: The new town manager kindly agreed to allow us to operate under his license but he refused to come back to the job. The board was upset because they still had hard feelings over the territorial disputes, but we had no choice, because the employee who had considered becoming certified had moved on by this time. And we were struggling to find someone who was willing to relocate to this rural area and take the job! It looked like we were going to have to offer to pay more than planned and as we were in the middle of the interview process, Fred was approached by a board member, who was a close personal friend, behind the scenes and he decided to come back temporarily for one year!! At this point employee morale was low, to say the least. I begged the board to set up some structure for the transition if we were able to find a replacement. They were reluctant to do so because of their loyalty to Fred. The board members had worked with Fred for many years and he had been such an outstanding manager, that they just couldn't get used to the idea of

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managing the manager! So Fred came back but word had gotten out and no one wanted to risk leaving a job to come and try to work with Fred. In fact, several candidates who had expressed interest withdrew their resumes.

The board was now justifiably afraid that they would never find a replacement and that other employees might quit too, so they made a very difficult decision. The board president called a meeting to ask Fred for his immediate resignation. However, three of five

board members resigned in protest during the meeting (Fred had talked to them ahead of time); the entire utility was in crisis mode. Ultimately, the remaining two board members were left holding the bag and they approached the town again for help. This time the utility manager was told by the city council that he could not let us operate under his license unless we did so under a management agreement and agreed to start merger talks and work towards dissolution of the district. It was all said nicely, but over the next couple of years, the town took all the areas it wanted and the remaining areas were picked up by another rural water utility. It was a sad ending to a once thriving district.

If these sound like horror stories, I assure you, they are not; they happen all the time. Some may not be as dramatic; sometimes management disasters sneak up on small rural utilities. But often, the only option when they do is to consider consolidation, contract management, or even dissolution. Sometimes these disasters lead to positive outcomes, but often they do not. Small rural utilities will always face these personnel management problems, but there are some excellent strategies for avoiding them, which I will discuss in the next article. The goal for any utility is to have staff in the right numbers, to know what assets the system owns and the condition of those assets, to be consistently funded at adequate levels, to maintain financial credibility with their communities through continuous communication, to maintain consistent service even during a natural disaster and to make decisions in open processes, with transparency and public participation. But unless a system plans for the management disaster, and have the right staff in the right jobs, it will never be able to meet any of the other goals.

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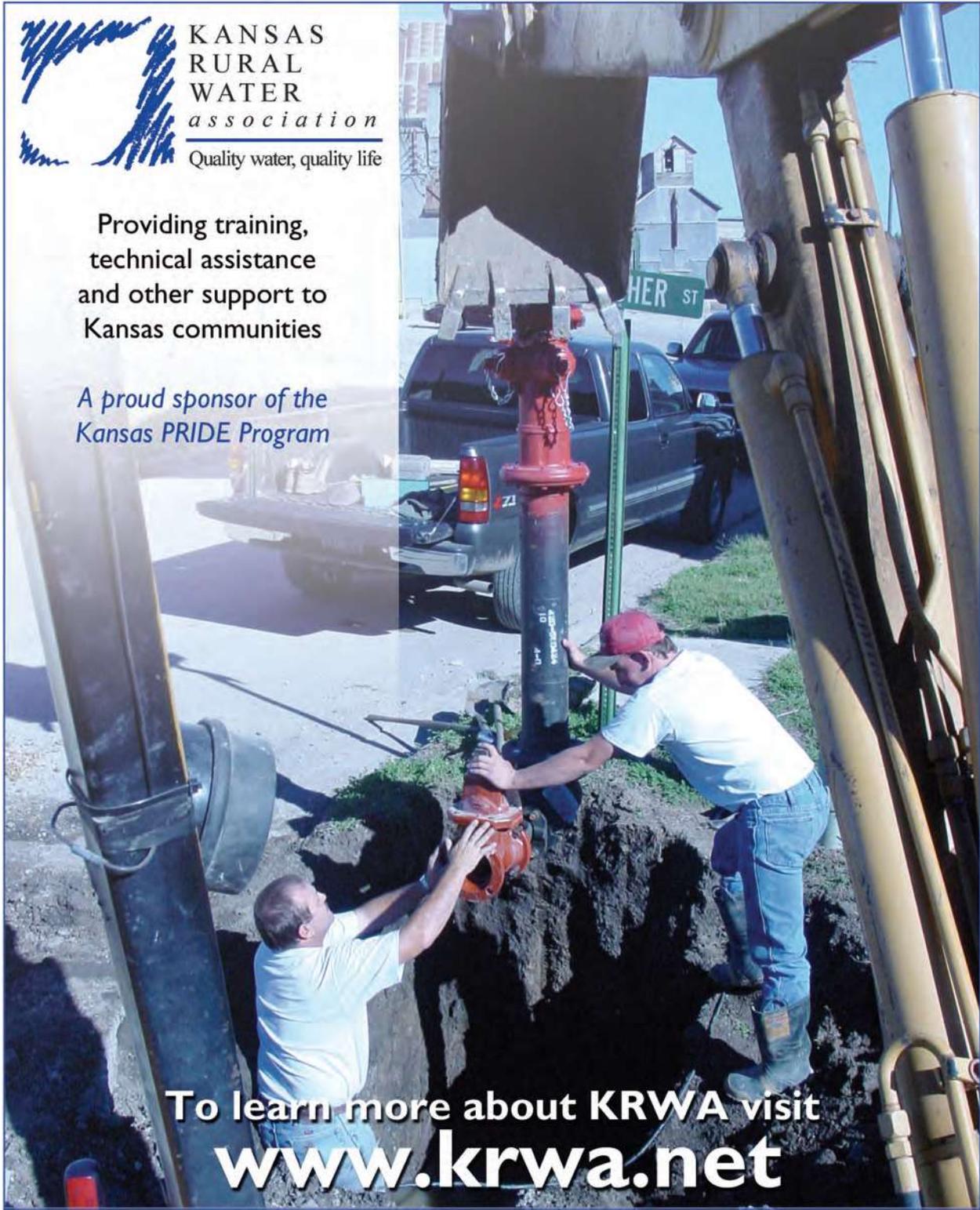




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