

Follow-Up to the Operating Board Workshop Session

January 5, 2012

Facilitated by:

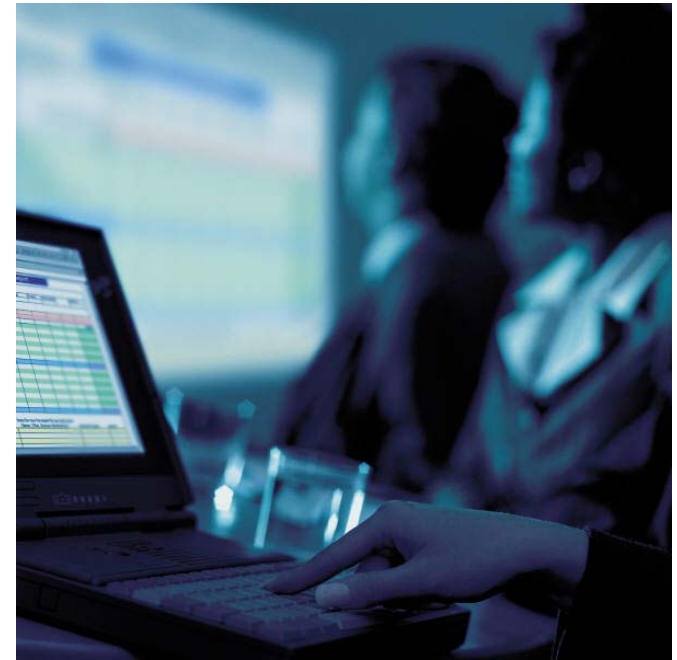
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Overview of the Presentation

- Briefly review the discussion with the workshop participant's – their perspective
- Briefly review the key principles of policy governance discussed at the workshop
- Discuss the “take-aways” from the workshop – identify areas for discussion and improvement
- Create a list of items for the Board to review and work on



Review of the Workshop Discussion Current Operating Board



Defining the Operating Board

- What is your definition of the Operating Board (i.e. who or what is the Operating Board?)
 - Varying responses; a loose group of representatives that looks out for the interests of the group as a whole.
 - Some lack of understanding concerning who Board members were and what is the role of the Operating Board.



Purpose of the Operating Board

Section V, Subpart 1

Purpose. The purpose of the Operating Board is to provide certain **limited authority** to a board of representatives elected by the Wholesale Customers over **policy and operational matters** as they affect the Seattle Water Supply System.

Summary of Exhibit IV

– Operating Board Structure

- 1. Structure and Term
 - 3 SPU representatives, 3 wholesale customer representatives (representing small, medium and large customers) and an independent (7th) member.
 - Wholesale representatives selected by utility members – split roughly in thirds (small, medium, and large) based on ERUs (one vote per utility)
 - Act in the best interest of the system as a whole, not the group you represent or your individual utility

Summary of Exhibit IV

(continued)

- 1. Structure and Term (continued)
 - **Four year terms (staggered), limit of 3 terms**
 - **7th member is independent** and selected by the majority vote of the Board. Non-voting member unless there is a dead-lock
- 2. Voting
 - **1 person, 1 vote.** No granting of “proxy” voting
 - Each Board member may appoint an **alternate** to vote in his or her absence
 - **Quorum of four (4) Board members** present shall be required for any vote

Summary of Exhibit IV

(continued)

- 3. Chairperson
 - Selected first regularly scheduled meeting of the year
 - Selected by nomination and voting process (simple majority)
 - Chairperson is responsible for calling meetings, determining agenda and presiding over the meeting.
 - In the Chairperson's absence a representative of SPU shall preside over the meeting
 - Chairperson is the spokesperson for the Board and liaison between the Administrator and the Seattle City Council's Committee on Water Resources and Public Health

Key Questions

- **Greatest weakness of OB?** – Confusion of the roles and responsibilities of the Operating Board and how it works
- **If you could change one thing within the current contractual limits – what would it be?** – The way we sit in the room for each Operating Board meeting
- **If you could change one thing without worry about the contractual limits – what would it be?** – The way we look at rates (move to yearly) due to the overall impact of the true-up

Policy Governance



Foundation of Governance

Policy Governance: What It Is

- Policy governance is a form of leadership; governing body provides “visionary” leadership; should not be involved in day-to-day operations/decisions.



The Problem

- A governing board that doesn't understand their role – they bring to the table what they know.
- A management team that doesn't work with their governing board in an effective way.
 - Properly laying out the discussion.
 - Focusing on the key policy decisions.

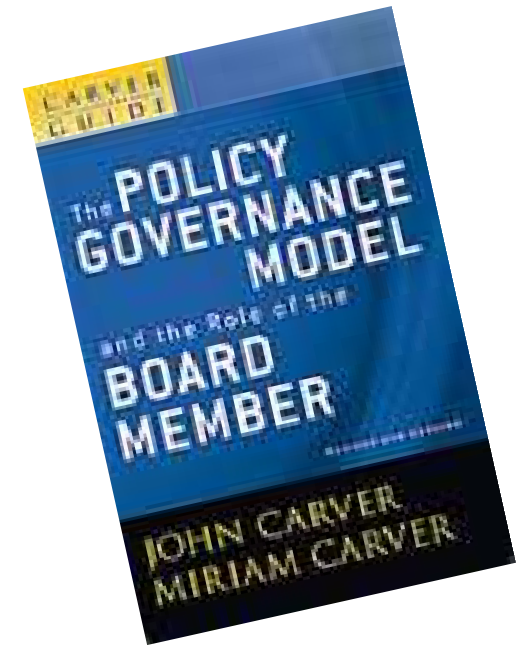
Models for Policy Governance

- Principles of Policy Governance
 - Understanding the role of the Board
 - What the Board should focus on
 - How decisions are made
 - How those decisions are communicated
- The Need for Governance Structure
- Applicability of governance model to an Operating Board (with limited authority) vs. a utility's Board of Directors or a City Council



Models of Governance Structure

- Based upon a simple principle:
 - Governing body establishes the “ends”.
 - Management team determines the “means”.
- An effective governing body’s role is to:
 - To see to it.
 - Achieve what the organization should.
 - Avoid what is unacceptable.



An effective Operating Board should speak with a “single voice” and be focused on the ends, not the means

What Are “Ends” and “Means”

- **“Ends”**

- Defined as the results or the priorities of the organization
- Example – targeted conservation savings (e.g. 5%).

- **“Means”**

- Defined as the methods, programs, practices & conduct of the organization to achieve the “ends”
- Example: Management determines that conservation savings will be achieved via a specific program or programs

“To See To It”

- Commitment to assure that things are done right.
- Governing body must describe what is “right” or the criteria for success (e.g. financial performance target levels).
- Governing body must hold parties accountable.
- Governing body must monitor performance regularly.

“Achieve What the Organization Should”



- Implies an understanding of providing services (benefits) to the right customers, at an appropriate costs.
- Another way of describing “ends”.
- Mistakenly, most governing boards focus on activities, as opposed to “ends”.

“Avoid What Is Unacceptable”

- If the governing body focuses on the “ends” then the “means” are delegated to management.
- Micro-management of the “means” is a major problem of governing boards.
- Governing body should specify any “means” that are unacceptable (e.g. achieving conservation by pricing water at marginal cost).
- Management is left with a broad array of choices (means) to meet the desired “ends”.

Basic Principles for Policy Governance

1. The Trust in Trusteeship
 - The Operating Board governs on behalf of those not seated at the table
2. The Board Speaks With One Voice, Or Not At All
 - The power of the Board is not as individuals, but as a group. Diversity of opinions and viewpoints are encouraged. Board members on the losing end of the vote, must accept the Board's decision.
3. Board Decisions Should Predominately Be Policy Decisions
 - Decisions should embody the Board's belief's, commitments, values and vision

Basic Principles for Policy Governance

(continued)

4. Boards Should Determine Policy By Determining the Broadest Values Before Progressing to More Narrow Ones
 - Resolve broader issues first before dealing with smaller issues
5. Board Should Define and Delegate, Rather Than React and Ratify
 - The act of approving tangles Boards in trivia
6. Ends Determination is the Pivotal Duty of Governance
 - “Ends” are the reasons for the Board existence

Basic Principles for Policy Governance

(continued)

7. The Board's Best Control Over Staff Means Is To Limit, Not Prescribe
 - Board is accountable for the way an organization operates and this is best done by setting limits
8. A Board Must Explicitly Design Its Own Products and Processes
 - A Board's policies states what it expects of itself; how it will conduct itself, perform its own job and measure its performance

Basic Principles for Policy Governance

(continued)

9. A Board Must Forge A Relationship With Management That Is Both Empowering and Safe
 - Most important link is between the Board and SPU's Director
10. A Board Must Hold Management Accountable to Policy
 - The Board establishes certain policies or ends and measures against that performance

Looking Ahead



Tom's Key Take-Aways from the Workshop and "To-Do" List

1. Incorporate more structure into the Operating Board?
 - A. More clearly defining who the "Operating Board" is:
 - Is it the elected representatives, each utility, or all parties attending a meeting?
 - By-laws require each utility to select an official representative to the Operating Board. Elected Board members (representatives) serve several purposes
 - Primary point of contact (leader) with their utility group
 - Representative voice of their group's position, concerns, issues, etc.

Tom's Key Take-Aways from the Workshop and "To-Do" List (continued)

1. Do we need to incorporate more structure into the Operating Board? (continued)
 - B. Create greater structure and Board organization through a more formal seating arrangement?
 - C. Clear identification to audience members of each representative – who represents you?
 - Chair, SPU members, at-large member and the Utilities - small, medium, **large** representatives
 - D. What is the appropriate role of an alternate at a meeting when the elected utility representative is present at the meeting?

Tom's Key Take-Aways from the Workshop and "To-Do" List (continued)

2. The need for improved communication within each utility group (small, medium and large)
 - A. How should each utility group internally communicate? (e.g. what process should be used to have ideas, suggestions, etc. more formally come before the Operating Board?)
 - B. How should each utility Board member representative communicate information before and after each meeting to the utility's he/she represents?
 - C. Could individual group meetings (i.e. a caucus) prior to the Board meeting be an effective method of communicating and coordinating the individual groups?

Tom's Key Take-Aways from the Workshop and "To-Do" List (continued)

3. Who is responsible for keeping the group focused on the proper topics and level of discussion (i.e. ends/means, Operating Board has limited authority)? Stated another way, who is responsible for a properly structured discussion? ^[1]
 - A. Appropriate representative, the representative group (e.g. SPU/utilities), the Chair, or the Board as a whole

[1] – For example, requesting financial statements (i.e., a “means” or a way to measure financial performance) without the Operating Board first establishing the specific need or financial targets (ends) is a process counter to good policy governance. The OB should first focus on the desired ends, and then determine what information or reports need to be provided.

Tom's Key Take-Aways from the Workshop and "To-Do" List (continued)

4. How should audience members be involved in the Operating Board meetings, if at all?
 - Operating Board meetings are a representative form of governance. By definition, audience members don't need to be "involved"
 - Would improved communication within each group, before and after meetings, reduce the perceived need for audience participation? "Participation" occurs through each elected representative to the Board, outside of the actual Operating Board meeting