

Ontario's Prevention System: A New Direction
Business Case – Health & Safety Association Realignment

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A New Direction

Everywhere you look, new realities and new imperatives emerge. To cope with today's challenges and tomorrow's marketplace, we must all work collaboratively in an environment of trust and accountability.

Many large businesses are shrinking as a result of globalization and the economic downturn, with a corresponding reduction in revenue for investment. A growing number of small and micro enterprises are struggling to survive.

Whatever the size, all businesses in Ontario are operating under the dual requirement to drive down costs while improving service, performance and efficiencies.

The same financial pressures make it paramount that every dollar invested in the Prevention System delivers measurable improvements in workplace health and safety.

The Prevention System of Ontario must respond to and anticipate the changing economy and world of work by developing better analysis, protecting vulnerable workers, more interactive channels for communications, fostering business-to-business relationships with employers, and responding to customers' needs with innovative solutions. Employers and workplaces in Ontario will be looking to the System for leadership.

Now, more than ever, is the time to eliminate costs associated with workplace injury, by making preventive health and safety practices a priority.

Consider the repercussions of:

- ∞ Eighty to 100 traumatic fatalities a year, each tragedy flying below the radar of public consciousness.
- ∞ 1,600 allowed lost time injuries each week.

Statistics like these cost us all financially and emotionally – as workers, as employers and as a society – but they also clearly demonstrate the need to change our attitude and behaviour towards health and safety.

Looking Ahead

Ontario is already a great place to do business, live and work. Making our province, and indeed our country, the healthiest and safest place to work in the world is a prize worth winning.

The Prevention System of Ontario is replacing continuous improvement and incremental change with bold approaches to big challenges that will streamline the way we work, and eliminate processes that fail to demonstrate measurable progress.

In 2009 and beyond, the System will move forward in partnership with employers and workers, as one team and toward a shared commitment: nothing less than zero injuries, illnesses and fatalities in every workplace.

It can be done. Here's how the Prevention System is poised to make that happen.

Five Ways the Prevention System Will Change

1. We'll Operate More Like a Business

In response to economic challenges and unacceptable health and safety outcomes, the Ontario Prevention System is undertaking a critical assessment and restructuring of its programs and services, and the way it delivers them.

Watch for these changes:

- ∞ Ontario's 12 health and safety associations are being distilled to four, leading to visible efficiencies in the system and more staff where they are needed most: on the front lines.
- ∞ The four new associations will simplify, streamline and innovate, and processes that do not demonstrate measurable progress toward our overall goal—to create the healthiest and safest workplaces in the world—will be eliminated.
- ∞ The soon-to-be-created Boards of Directors, and soon-to-be-hired CEOs representing the four new associations, will drive these improvements through good corporate governance, collaboration across organizational boundaries, accurate communication, solid leadership, and personal courage.
- ∞ A renewed focus on employers and workers, building trust that the System is putting their needs first.
- ∞ Innovative, cost-effective solutions that anticipate trends and earn Ontario a reputation as a world leader in prevention.
- ∞ The four new associations will provide, on a phased basis, a standard bundle of products or services to assist small business and vulnerable workers.
- ∞ Investments in the Prevention System that are guided by priorities set and results achieved, and not on custom and tradition.

2. We'll Improve Consistency in Measures, Offerings and Reach

Today, an employer can be visited by a system partner and is exposed each time to different measures and approaches. In addition, the safety performance of some government sector employers is measured using different criteria than for private sector firms. Adding to the confusion is the presence of 12 different health and safety associations with 12 different sets of phone numbers, websites, products, services and price points.

What we can expect to see in the future:

- ∞ Roles and responsibilities of Prevention System partners and business are clearly communicated, transparent and consistent.
- ∞ Employers enter the Prevention System through "one door" with one phone number and one website, and navigate one straight path to sector-specific solutions.
- ∞ Workplaces in every region of Ontario – from the Great Lakes to the far North – have the same access to services.

- ∞ Consensus on which activities that promote prevention best measure a firm's commitment to health and safety.

3. We'll Provide Better Support to Business, Especially Small and Micro Enterprises

Simply believing in the achievability of zero injuries and illnesses is powerful. Employers and workers want to believe, needing encouragement, better products and services at less cost, that are understandable, accessible, and relevant to their workplace. The Prevention System must put worker and employer needs at the centre of all we do, including the creation and redesign of better delivery channels.

Improvements you will see:

- ∞ The Prevention System will demonstrate its understanding of the unique challenges of new workers and small business – a significant proportion of Ontario worksites and workers – by offering innovative and cost-effective health and safety solutions designed for the way they work.
- ∞ An infusion of front-line HSA staff will help businesses stay safe and leverage their investment in health and safety to improve their bottom line and corporate culture.
- ∞ Better communication will assist all businesses, large and small, understand their obligation to set and achieve a goal of Zero.
- ∞ Health and safety will be promoted as an opportunity to improve worker engagement, morale and productivity, making it a competitive advantage in the marketplace to attract and retain talent.

4. We'll Provide Better Support to Workers

Support for workers begins by providing them with information and supporting them in exercising their rights.

Key indicators to look for:

- ∞ Workers will understand their rights and responsibilities, and have access to information, advice and training so that they can act to protect themselves from injury.
- ∞ The redesign of the certification training standards and delivery system to reflect the challenges in the workplace and to assert the obligations of employers to sustain the Internal Responsibility System.
- ∞ Workers will recognize the MoL, WSIB and HSAs as friendly and accessible resources and partners in preventing injuries.
- ∞ New workers will be provided with adequate orientation and training in health and safety prior to commencing employment.
- ∞ The public reaction to a fatality in the workplace will be that it is unacceptable and preventable, and that it will serve as a call to action to redouble our efforts in prevention.

5. We'll Communicate Using New and Innovative Tools

The Prevention System has an opportunity to help make health and safety a national habit by instilling a culture of innovation and rethinking everything from our business approach to our service delivery models. We are committed to shifting attitudes and commitments, breaking myths and challenging perceptions, and embracing the changing world of information management and communication.

Some of the new approaches that are coming:

- ∞ New communications channels, such as online social networking, to carry the message further afield.
- ∞ Identification and adoption of best practices in health and safety throughout the province.
- ∞ Targeting messages to specific employers and worker populations, and to those who influence others.

Only the Road to Zero

This is a bold plan, designed to address concerns identified from our past, and tabled today to address our shared future. The Boards, CEOs and staff of the current HSAs have shown leadership, courage, and foresight in crafting this plan and in making the progress to date.

Ultimately, Zero is the goal: there is no other choice. We believe this plan will revitalize Ontario's efforts to emerge as a global leader in prevention, regardless of economic conditions—a leader with a champion for prevention in every workplace, every school and every household; a leader where workers and employers are engaged with the Prevention System; and all are inspired and enabled to eliminate the burden of injuries, fatalities and disease.

The Case For Change

The primary goals of the Road To Zero prevention strategy are twofold: (a) reduction in annual lost-time injury (LTI) rates by 35% over the five years of the strategy (2008-2012), and (b) zero fatalities. In the Road To Zero strategy publication, it was recognized that the current prevention system is not optimized to meet this goal:

...Maximizing the value of prevention efforts requires the coordination and cooperation of a large number of players. These include the system's core partners – Ontario's Health and Safety Associations (HSAs), the Ministry of Labour, and WSIB.

...Prevention partners work largely independently, and a need exists to align efforts and clarify roles; the risk for inconsistent messages and duplication of effort must be removed.

...System partnerships must be strengthened if we are to achieve our prevention vision and provide value for money... To that end, ...an alternative governance model with HSAs will be developed.

To fulfill the commitment outlined in the second thrust of the Road To Zero prevention strategy – *providing leadership to align prevention partner efforts and achieve improved outcomes* – the Occupational Health & Safety Council of Ontario (OHSCO) initiated a Roles Review and Realignment project in the spring of 2008. Throughout the spring and summer, the current prevention system was reviewed, and partners and stakeholders were surveyed to identify opportunities to improve the delivery of prevention services. In June, The HSAs, WSIB and MoL recognized the need to create a future “system that responds in a flexible, active way to emerging problems”. The new Prevention System, it was agreed, would be marked by:

- ∞ A streamlined HSA model
- ∞ The maintenance and enhancement of sector-specificity in the front lines
- ∞ Integrated planning
- ∞ Consolidated ‘strategic services’
- ∞ One website (a common system access point) and one integrated and aligned communication and marketing plan

Development work continued throughout the summer and culminated in a September, 2008 presentation of the initial realignment model to the membership of OHSCO. Extensive consultation with Boards of HSAs, employers, labour and other stakeholders, led to further development of the model in the autumn of 2008, and the revised OHSCO model now highlights four key issues to be addressed through a realignment of the System:

- ∞ Need for more “front-line” resources
- ∞ Better use of current resources
- ∞ More consistent service delivery, quality and outcomes
- ∞ Greater responsiveness to changing customer needs

Issues

Need for more front-line resources

The current structure has been in place since 1998, and has greatly contributed to a long-term reduction in the annual LTI rate (since 1997, the LTI rate has declined at an annual average rate of 5.1%). However, simply sustaining this rate, let alone achieving the desired 7%, would be impossible by maintaining the *status quo*.

For 2008, Ontario workplaces will fall considerably short of the desired 7% LTI-rate reduction; the fragility of the economy in 2008 appears to have exposed a similar fragility in the improvement trends in health and safety outcomes that accompanied economic growth and expansion. The financial impact of missing the 7% target is considerable; to illustrate, missing the target by only 1% would itself result in approximately \$ 15,000,000 in additional benefit costs.

Existing investment in prevention must be redirected to ensure more resources are employed at the front line so that HSAs have more direct engagement with employers and workers to provide more sector specific responses. **Currently, less than half of the HSAs' salary budgets are allocated to front-line workers.** Increased HSA engagement with priority (at risk / vulnerable) employers and workers would increase the penetration and impact of the Prevention System and improve the odds of meeting the 7% annual reduction target.

Better use of resources

The presence of fourteen distinct HSAs perpetuates a need for fourteen separate management and administrative structures to operate them. The current structure therefore features fourteen CEOs (at a cost of over \$2,000,000), fourteen management teams, fourteen separate information technology systems (supported by the necessary IT staff), and fourteen teams of operational support staff. As a result, more salary dollars are devoted to management and administration than to the front-line field consultants whose purpose is to directly impact or influence workplace health and safety.

As noted in the previous section, one of the planned outcomes of the proposed realignment is increased investment in front-line field staff. Given the current state of the necessary vigilance across the system to be fiscally prudent and responsible, the dollars currently allocated for salaries must be redeployed to emphasize more front-line investment and reduce HSA management and administration costs. The best way to accomplish this is to reduce the number of HSAs and eliminate duplication and inefficiencies.

Aside from eliminating duplication of managerial and operational support functions, reducing the number of HSAs will also serve to eliminate overlap in infrastructure, which, in the long term, frees up additional money to be invested in front-line staff.

More consistent service delivery, quality and outcomes

Though LTI reductions over the past decade average over 5% annually, the success rate of each service provider varies extensively, ranging from an average decrease of over 10% in the electrical sector to a small average increase – 0.5% – in the pulp and paper sector.

Additionally, the ratio of employers to field staff (E:F) also varies greatly among service providers. The lowest E:F is 31:1, while the highest exceeds 2,400:1. Certain employers in a high-E:F sector may never receive direct HSA support because sufficient staff are unavailable, or because some HSAs have come to focus on additional revenue generation by limiting the services they provide to smaller employers that may be less willing to invest in prevention products.

As well, while some HSAs promote revenue-generating products and services (and, in turn, charge “market” rates), others only charge enough to recover costs, and still others do not charge. Inconsistent pricing models drive inconsistent employer behaviours with respect to the purchase of these services, which leads to differing levels of employer interaction with each of the HSAs.

Finally, the delivery of ostensibly identical or largely similar products varies greatly among HSAs. This is perhaps most notably illustrated in the delivery of Level 1 Certification. This introductory course – required

as part of training for participation on a Joint Health & Safety Committee – is delivered by 13 of the 14 HSAs, but the duration varies from two to five working days, and the prices similarly vary.

Responsiveness to changing customer needs

The current structure and funding model makes it difficult to shift prevention resources from low-growth or declining sectors to higher-growth areas where a need for more prevention system intervention is evident.

As an example, while manufacturing sector employment has declined by 13% in the past five years, WSIB funding of the manufacturing HSAs has not similarly decreased. The net result has been a near 15% increase on WSIB funding per manufacturing employee, in a declining sector. Conversely, education sector employment has risen 23% over the same period, with no corresponding increase in WSIB funding of the education HSA. Effectively, this has resulted in a funding *decrease* of over 18% per education-sector employee.

A realigned structure would place several complementary sectors within a single service provider, reducing the number of HSAs needed to service the province. The combining of sector administration and management within an HSA will allow for better access to specialized services and flexibility in allocating resources where prevention resources are most required.

The current structure is designed to service a more traditional economy with larger employers and fewer transitory workers. This neither reflects nor effectively serves the explosion of small and micro businesses, the move to a knowledge- and service-based economy, and the significant increase in more flexible work arrangements and environments. Each of these presents challenges not effectively met by the current structure.

Other concerns

Surveys and stakeholder feedback have identified other problems with the current structure.

- ∞ The composition of each HSA Board varies, and most director-selection processes are not competency based. Furthermore, few organizations have codified director-selection processes in their by-laws.
- ∞ Despite the sector specialization inherent in the current structure, many employers remain unaware of the existence of their designated HSA, or are uncertain as to which organizations provide the necessary health & safety training and consulting; many employers ultimately choose to use private-sector consultants not funded through their premium rate contributions.

Vision

Proposed model

A detailed graphic of the proposal is included in Appendix B. Highlights of the proposed model include the following:

- ∞ Restructuring of the HSAs from fourteen to six.

Workers Health & Safety Centre (WHSC) and Occupational Health Clinics for Ontario Workers (OHCOW) would continue to be the Prevention System's designated training centre and medical clinic respectively.

The twelve existing safe workplace associations would be amalgamated into four new organizations:

- ∞ "Government-directed Services" HSA: this group would primarily focus on the education, health care, and municipal sectors, with a critical mass of Schedule 2 employers. This HSA would service approximately 9,000 employers, many of which are quite large including school boards, hospitals and municipalities.
- ∞ Northern HSA: in addition to services for employers in the forestry, mining, and pulp / paper industries, this HSA would direct services to any employer based in the vast expanse of Northern Ontario (roughly defined to include all points north and / or west of North Bay). Approximately 20,000 employers would be serviced through this HSA.
- ∞ Two larger HSAs for "Risk Group A" and "Risk Group B": the vast majority of employers (over 200,000) will be serviced by one of these two HSAs. While the complete customer base for each HSA is still to be determined, "Group A" will primarily encompass employers in the construction, transportation, and electrical industries, while "Group B" will include the farming, manufacturing, and service sectors.
- ∞ The new structure allows for the retention of sector-specific advisory groups to ensure the voice of the sector is heard and reflected on the boards of the new organizations, in plans and service provision.

Benefits of the realignment

The proposed model offers four key improvements:

- ∞ An opportunity to significantly increase investment in front-line services by reallocating savings from reduced administration.
- ∞ Increased customer focus, especially new workers and small business and the flexibility to reallocate resources among sectors as demand fluctuates.
- ∞ Extended service to underrepresented areas, particularly in Northern Ontario; the current method of charging employers for HSA services through rate group or Schedule 2 levies will be examined so as to permit allocation of a more appropriate share of funding for northern prevention services.
- ∞ Greater accountability that will be achieved through revising the current HSA Governance Framework, implementing good corporate governance, including amending the Standards for Designated Entities, generating policies to reflect the new relationship between the HSAs and its system partners, and a new funding model to link performance and activity with annual base funding.

Summary: The Business Case

Implementation Costs

An initial investment of \$850K will be required in 2009 to initiate implementation of the proposed HSA model. This investment will be devoted to legal establishment of and executive recruitment for the four new legal entities.

An aggregate investment of \$3M will be required in 2010 and 2011, primarily for upgrading the IT infrastructure of the HSAs. However, the projected savings to be realized in these two years will be sufficient to fund the required upgrades.

Note: Implementation will not commence until interim Boards have been established.

Implementation Benefits

Savings will be derived from three main sources: front-line integration (reduced director, CEO, and senior management expenses), integration of support services (infrastructure savings and reductions in administrative support), and "strategic support" integration (savings on marketing / promotion and on staffing aligned with those functions).

Efficiencies will start to be realized as early as 2010, culminating in approximately \$ 8.4M net annual savings starting in 2016. As savings accrue each year, they will be re-invested into additional front-line resources, ultimately resulting in up to 80 new field staff.

A detailed ten-year (2009-2018) cost-benefit schedule is provided in Appendix C.

Implementation

Transition to new model

An OHSCO Integrated Planning Committee has initiated work on a number of key elements that will support the new model. This includes a new outcome measurement model, a workplace engagement tracking process, system partner role clarity and alignment, and strategic integration.

To better understand and assess the opportunities that exist to leverage existing system capability and capacity and enhance strategic service integration and support across the four new entities, a **WSIB Due Diligence Team** has been working closely with each of the HSAs to inventory and assess their current assets from an IT, HR, Finance and business process perspective.

In the first quarter of 2009, a "new model planning team" will be established, drawing from both the Prevention Division and Finance areas, with involvement of other WSIB resources as required. This team will oversee the transition and work with the existing HSAs to facilitate transfer of responsibilities to the new organizations.

Composition of the new Boards of Directors and selection of the four new leaders – the latter through an open competition – will also be initiated in the first quarter of 2009. The planning team will oversee the composition of each board and be involved in the CEO selection process.

It is anticipated that board appointments and recruitment of the four CEOs would be completed by early in the fourth quarter, and that the planning team will continue transition work with the new leadership team throughout the last quarter of 2009.

Phase 1 – Launch

Throughout 2009, the four new organizations will commence operations. New legal entities will be established barring an agreed amalgamation of existing entities – and the new boards / CEOs will select a management team, establish individual organizational structures, and assume responsibilities for functional and cultural integration of the legacy HSAs, together with devising a strategic plan for the new organization.

Phase 2 – Shared Services Integration

This phase will focus on the consolidation of existing human resources, finance, IT, procurement, and printing services.

Initially, the legacy organizations' existing shared services will be combined and consolidated, resulting in four shared-services groups (one for each new organization). However, new investments will be made with a view to creating “scalable” shared services; investment by any of the new organizations must be able to support the entire prevention system, as opposed to an individual HSA.

In the long term, the four distinct shared-services groups will be superseded by a consolidated back-office, whereby each of the four HSA will access common HR, finance, IT, procurement, and printing resources.

Phase 3 – Strategic Services Integration

“Strategic services” are defined to include marketing, product development, business analytics, and research.

As with Phase 2, the legacy organizations' strategic services will be initially consolidated and new investments will be made to benefit the prevention system as a whole. The long-term plan is to establish a common marketing, product development, and research / analysis approach serving all system partners. As the opportunities present and the business case dictates these phases may happen concurrently.

A diagram of the implementation framework is provided in Appendix F.

Next Steps

Following review and approval of the Business Case by the WSIB Board of Directors, additional consultation will occur with stakeholders specific to such things as the size of the new Boards of Directors, governance

models, strategic planning priority setting and methodologies for the measurement of performance in the system.

APPENDIX A – Current Model

(Figures in \$000s)

| | | All SWAs | |
|--|---------------|----------------------------|----------------------------|
| | | Unaudited Dec 31,08 | |
| REVENUE | | | |
| WSIB Funding (Note 1) | \$ | 72,315 | (73,583 budgeted for 2009) |
| Self-Generated Revenue | | 27,045 | |
| Amortization of Deferred Revenue (Note 2) | | 904 | |
| TOTAL REVENUE | | 100,264 | |
| | | | |
| EXPENSES | | | <i>FTEs</i> |
| Salaries - Permanent - President & CEO/GM | 1,962 | 2% | 12 |
| Salaries - Permanent - Management | 9,993 | 10% | 96 |
| Salaries - Permanent - Field Consultant/Trainers | 22,478 | 22% | 301 |
| Salaries - Permanent - Other Operations/Support | 12,109 | 12% | 225 |
| Salaries - Temporary / Contract | 2,147 | 2% | 0 |
| Total Salaries | <u>48,689</u> | 48% | <u>634</u> |
| Benefits | 15,155 | 15% | |
| Other Personnel Costs | 1,414 | 1% | |
| Total Salaries & Benefits | <u>65,258</u> | 64% | |
| Occupancy Costs | 7,040 | 7% | |
| Office Expenses | 7,213 | 7% | |
| Travel | 6,442 | 6% | |
| Program Delivery | 8,737 | 9% | |
| Consulting & Professional Fees | 1,790 | 2% | |
| Advertising & Promotion | 3,750 | 4% | |
| Other Expenses | 1,024 | 1% | |
| Total Non-Salary Expenses | <u>35,996</u> | 36% | |
| TOTAL EXPENSES | | | 101,254 100% |
| | | | |
| EXCESS OF REVENUE OVER EXPENSES | \$ | (990) | |

| Support Service Costs | | |
|---------------------------------------|--------------|---------------|
| Staffing & Benefits (72 FTEs) | 5,230 | |
| Voice & Data | 3,100 | |
| Equipment & Maintenance | <u>1,561</u> | |
| Total | | 9,891 |
| | | |
| Strategic Support Costs | | |
| Staffing & Benefits (63 FTEs) | 4,590 | |
| Advertising & Promotion | <u>3,750</u> | |
| Total | | 8,340 |
| Consolidated Back Office Costs | | 18,231 |

(Note 1) Excludes HSA Strategic Funding of \$1,725K but includes \$50K (\$65K in 2009) for MHSA grant

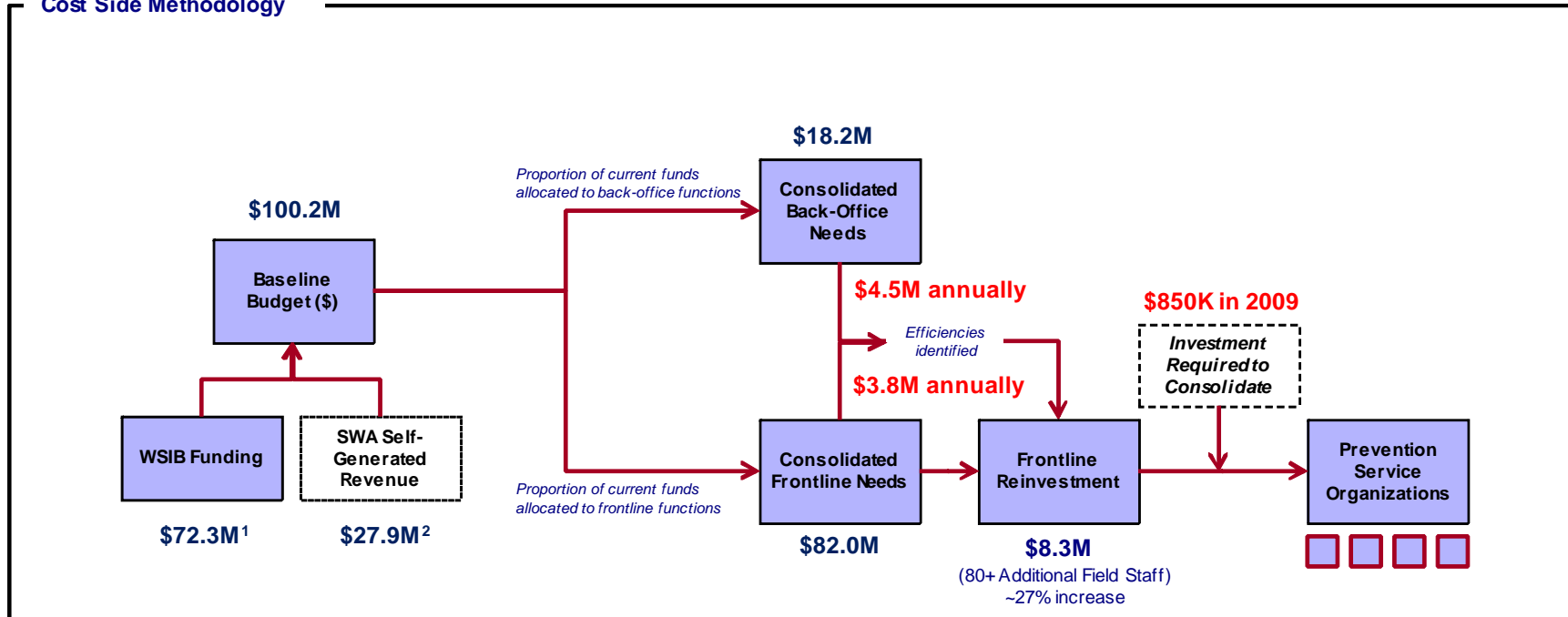
(Note 2) Offset by Amortization expenses under Office Expenses group

APPENDIX B – Proposed 6-HSA Model

| Board of Directors | Board of Directors | Board of Directors | Board of Directors | BoD | BoD |
|--|--|--|--|---|--|
| <p><i>Government-directed Services</i></p> <p>—</p> <p>Education Municipalities & Water Utilities Health/Community care All government organizations Taxi/ Limo Emergency Services First Nations</p> | <p><i>Risk Group A</i></p> <p>—</p> <p>Construction Electrical (incl. Utilities) Pipelines Natural Gas Aggregates Transportation</p> | <p><i>Risk Group B</i></p> <p>—</p> <p>Industrial Manufacturing Telecom Tourism/ Hospitality Farming Restaurant/ Food Services Retail/ Wholesale Vehicle Sales/ Services</p> | <p><i>North</i></p> <p>—</p> <p><i>Multi-sector focus:</i> Mining & Rescue Pulp & Paper Forestry Matrix of sectors from A, B, & Government-directed groups</p> | <p><i>WHSC</i></p> <p>Training centre</p> | <p><i>OHCOW</i></p> <p>Medical clinics</p> |
| Customer Advisory Groups | Customer Advisory Groups | Customer Advisory Groups | Customer Advisory Groups | | |
| Volunteer Network | Volunteer Network | Volunteer Network | Volunteer Network | | |
| Strategic Business Services | Strategic Business Services | Strategic Business Services | Strategic Business Services | | |
| <p><i>11 rate groups</i> <i>\$ 21.7B ins. earnings</i> <i>7K firms</i></p> | <p><i>28 rate groups</i> <i>\$ 23.5B ins. earnings</i> <i>79K firms</i></p> | <p><i>108 rate groups</i> <i>\$ 92.9B ins. earnings</i> <i>134K firms</i></p> | <p><i>8 rate groups</i> <i>\$ 8.4B ins. earnings</i> <i>16K firms</i></p> | | |

These benefits are provided as end-state figures 2016+

Cost Side Methodology



1 – Approved 2008 SWA funding, + \$50K grant for MHSA (municipal charter).
 2 – Unaudited 2008 Self-Generated Revenue + Amortization of Deferred Revenue

APPENDIX C – Ten-year Cost / Benefit Analysis

(Figures in \$000s)

| Year >> | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| System-Wide Investment | (300) | (1,750) | (1,250) | - | - | - | - | - | - | - |
| Legal Costs | (550) | (50) | - | - | - | - | - | - | - | - |
| Total Realignment Costs | (850) | (1,800) | (1,250) | - | - | - | - | - | - | - |
| Phase I: Frontline Integration | - | 1,796 | 3,092 | 3,517 | 3,942 | 3,942 | 3,942 | 3,942 | 3,942 | 3,942 |
| Phase II: Support Services Integration | - | 287 | 575 | 986 | 1,149 | 1,149 | 1,149 | 2,242 | 2,242 | 2,242 |
| Phase III: Strategic Support Integration | - | 1,269 | 1,412 | 1,556 | 1,699 | 1,699 | 1,699 | 2,273 | 2,273 | 2,273 |
| Total Integration Efficiencies | - | 3,352 | 5,079 | 6,059 | 6,790 | 6,790 | 6,790 | 8,457 | 8,457 | 8,457 |
| Cash Flow, Undiscounted | (850) | 1,552 | 3,829 | 6,059 | 6,790 | 6,790 | 6,790 | 8,457 | 8,457 | 8,457 |
| Frontline Staff Reinvestment (FTEs) | - | 10 | 25 | 50 | 65 | 65 | 65 | 83 | 83 | 83 |
| Additional Operating Expense (\$100K/FTE)¹ | - | (1,000) | (2,500) | (5,000) | (6,500) | (6,500) | (6,500) | (8,300) | (8,300) | (8,300) |
| Net Cash Flow, Undiscounted | (850) | 552 | 1,329 | 1,059 | 290 | 290 | 290 | 157 | 157 | 157 |
| 12% Discounted Cash Flow | (850) | 493 | 1,059 | 754 | 184 | 165 | 147 | 71 | 63 | 57 |

¹ Average Field Staff salary (\$74K) + 30% benefits (\$22K) = \$96K (rounded up to \$100K)

APPENDIX D – Realignment Costs

(Figures in \$000s)

| System-Wide Investment | 2009 | 2010* | 2011* | Total |
|--|-------------|--------------|--------------|--------------|
| Scaling of Existing Systems | | 1,750 | 1,250 | 3,000 |
| Executive Search/Evaluation ¹ | 300 | | | 300 |
| | 300 | 1,750 | 1,250 | 3,300 |
| Legal Costs² | | | | |
| Gov't Services | 150 | | | 150 |
| Risk Group A | 100 | 50 | | 150 |
| Risk Group B | 150 | | | 150 |
| Northern SWA | 150 | | | 150 |
| | 550 | 50 | - | 600 |
| TOTAL REALIGNMENT COSTS | 850 | 1,800 | 1,250 | 3,900 |

*2010-11 investment will be funded through savings achieved in that year

¹ 4 search & evaluation contracts at \$75K each² \$50K per entity in each new SWA

APPENDIX E – Integration Efficiencies

(Figures in \$000s)

| | YEAR | | | | | | | | | |
|--|----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Phase 1: Frontline Integration | | | | | | | | | | |
| Reduced BoD Expenses ¹ | - | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | |
| Scope & Scale Efficiency - Staffing ² | - | 1,296 | 2,592 | 3,017 | 3,442 | 3,442 | 3,442 | 3,442 | 3,442 | |
| TOTAL PHASE 1 | - | 1,796 | 3,092 | 3,517 | 3,942 | 3,942 | 3,942 | 3,942 | 3,942 | |
| Phase 2: Support Services Integration | | | | | | | | | | |
| Cost Efficiencies ³ | - | 123 | 247 | 494 | 494 | 494 | 494 | 932 | 932 | |
| Scope & Scale Efficiency - Staffing ² | - | 164 | 328 | 492 | 655 | 655 | 655 | 1,310 | 1,310 | |
| TOTAL PHASE 2 | - | 287 | 575 | 986 | 1,149 | 1,149 | 1,149 | 2,242 | 2,242 | |
| Phase 3: Strategic Support Integration | | | | | | | | | | |
| Cost Efficiencies ⁴ | - | 1,125 | 1,125 | 1,125 | 1,125 | 1,125 | 1,125 | 1,125 | 1,125 | |
| Scope & Scale Efficiency - Staffing ² | - | 144 | 287 | 431 | 574 | 574 | 574 | 1,148 | 1,148 | |
| TOTAL PHASE 3 | - | 1,269 | 1,412 | 1,556 | 1,699 | 1,699 | 1,699 | 2,273 | 2,273 | |
| TOTAL INTEGRATION EFFICIENCIES | - | 3,352 | 5,079 | 6,059 | 6,790 | 6,790 | 6,790 | 8,457 | 8,457 | |

¹ Based on an average cost of \$75K per BoD x 4 SWAs = \$300K. Savings = \$800K (2008 actual) - \$300K = \$500K

² Staff efficiencies to be reinvested through retraining and redeployment

³ Efficiencies include consolidation of all non-staffing costs associated with HR, IT, Finance, Procurement, and Printing. Half of expected consolidation of non-staffing costs gained through volume and renegotiation within the 4 new entities. Remaining half to be realized after multi-organization consolidation of all supporting services takes place in 7 years (2016). Total savings expected to be 20% of existing funding = \$932K

⁴ Efficiencies include consolidation of all non-staffing costs associated with Marketing, Product Development, Research, and Business Analysis (discretionary expenses). All potential savings can be achieved by discontinuing spending (30% of current Advertising & Promotion) = \$1,125K

APPENDIX F – Implementation Framework

