

**REPORT ON CONTRACTING POLICY IN
LOS ANGELES COUNTY GOVERNMENT**

August 1987

LOS ANGELES COUNTY
ECONOMY AND EFFICIENCY COMMISSION

ROOM 163, HALL OF ADMINISTRATION / 500 WEST TEMPLE / LOS ANGELES CALIFORNIA 90012 / 974-1491

Joel Crail, Chairperson
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Charles T. Richardson
Daniel M. Shapiro
Dean Sweeney, Jr.
Wally Thor
Robert L. Williams

September 22, 1987

Hon. Board of Supervisors
383 Hall of Administration
Los Angeles, CA 90012

Dear Supervisors:

In August, 1986, following approval of the final report of the Contracting Services Advisory Committee, you asked our commission to continue the work of that committee on contracting policy.

At our regular meeting on August 5, 1987, the full commission adopted the enclosed report and recommendations on the County's contracting programs. Our task force studied all forms of contracting - mandatory, sundry services, and Proposition A. Our recommendations, if adopted and implemented, will improve performance of contracting in general, particularly Proposition A contracting. We have enclosed a list of recommendations. The report contains full discussion and documentation.

The Chief Administrative Officer has indicated disagreement with the recommendation which would require him to report details of departmental contracting activity. He has also indicated concern about the implementation of some of the other recommendations. We feel that the monitoring role is essential to accomplishing the potential of contracting. However, in adopting the report, our commission included a provision that our task force would continue to work with Mr. Dixon to devise

Supervisor

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means of achieving the intent of our recommendations while also reducing the level of his concern.

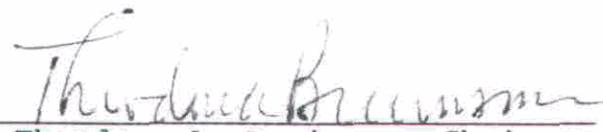
Therefore, we recommend that the Board of Supervisors:

1. Adopt the enclosed report and recommendations on Contracting Policy in Los Angeles County Government with the proviso that the details in the recommendations are subject to change as required for implementation;
2. Direct the Chief Administrative Officer to work with the Task Force on Contracting Policy to refine the details of the recommendations as needed for implementation; and,
3. Request the Economy and Efficiency Commission to report on the status within 180 days.

Very truly yours,



Joe Crail, Chairman
Economy and Efficiency Commission



Theodore A. Bruinsma, Chairman
Contracting Policy Task Force

TAB:JC:rls
Encl.
DRAFT

LIST OF RECOMMENDATIONS

Recommendation 1: Goals

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement new contracting goals and programs which:

expand the scope of contracting to the mission functions of County government (County Code 2.104.380);

establish a clear priority on using contracting to improve County productivity through technology and organizational innovation (2.104.385);

identify areas for full privatization, including divestiture of County assets and operations to commercial enterprises.

Recommendation 2: Requests for Proposals

The task force recommends that the Board of Supervisors direct the CAO to work with department heads to revise the County's approaches to writing requests for proposals so that:

contracting encompasses a large enough proportion of the function to lead to overhead reduction within five years of award (2.104.420);

contracting focuses more on performance requirements of the work to be performed than on organization, staffing and labor inputs of the contractor (2.104.385);

where feasible, a contract can be used as a master agreement for purposes of expansion to additional bidders, departments, or workload without additional solicitations and proposals (2.104.300);

proposals can include cost-plus as well as fixed price bids (2.104.320-370).

Recommendation 3: Employee Impact

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement improved methods of managing employee impact to achieve maximum savings from contracting, including at least the following (2.104.420):

outplacement services, special termination pay, early retirement, job training, and placement in County jobs;

set aside and carry-over from year to year of 5% or more of the annual savings from Proposition A contracting in a separate appropriation to fund the above programs;

preference for contractors whose proposals include plans for hiring County employees (2.104.380);

active programs to encourage employees to form private firms to provide as contractors services which they now provide as employees. (2.104.295).

Recommendation 4: Incentives

The task force recommends that the Board of Supervisors direct the CAO to:

permit in-house organizations to submit proposals in the same competition as contractors, under the same conditions, when the County plans to contract out their work (2.104.280-420);

integrate the performance pay, bonus, suggestion award, and budget savings retention plans, and other financial incentive programs, into a single comprehensive program (6.08.300-380, 6.10.075, 5.60.010-260, 4.12.150);

link at least half of any financial incentive, including compensation increases awarded in the Pay for Performance Plan, to quantified productivity improvement goals measured at the program level (6.08.320, 330).

Recommendation 5: Monitoring and Reporting

We recommend that the Board of Supervisors direct the Chief Administrative Officer to implement, to the extent feasible, a single policy governing all forms of County contracting. The policy would include:

reporting of each department's contracting plan in the published proposed budget for each type of contracting, and quarterly reporting by the CAO of the results, by type of contracting (4.12.070);

central records in the Chief Administrative Office of the basic analytical and descriptive data in such County contracts of all types (2.08.070);

CAO responsibility to periodically evaluate the results of the County's contracting programs with emphasis on their effects on program-level productivity improvements (2.08.040);

increased integration of County-wide departmental productivity and contracting programs, including increased authority for contract and productivity managers (3.51.010-120, 2.104.250-420).

REPORT ON CONTRACTING POLICY
IN LOS ANGELES COUNTY GOVERNMENT

August, 1987

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Members of the Task Force on Contracting Policy

Theodore A. Bruinsma, Chairperson
Jack Drown
Abraham M. Lurie
Daniel M. Shapiro
Robert L. Williams.

Other Commission Members

Joe Crail, Chairperson
Susan Berk
George E. Bodle
Gunther W. Buerk
John D. Byork
Dr. Edward H. Erath
Louise Frankel
Dr. Alfred J. Freitag
Chun Y. Lee
Robert J. Lowe
Lauro J. Neri
Doris K. Seward
Randolph B. Stockwell
Wally Thor



MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

Larry J. Monteih, Executive
Officer
Clerk of the Board of
Supervisors
383 Hall of Administration
Los Angeles, California 90012

Chief Administrative Officer

At its meeting held September 22, 1987, the Board took the following action:

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The following matter was called up for consideration:

Los Angeles County Citizens Economy and Efficiency Commission's report on the contracting policies in Los Angeles County.

Joe Crail, Chairman of the County Citizens Economy and Efficiency Commission, Theodore A. Bruinsma Chairman of the Contracting Policy Task Force and an interested person addressed the Board.

On motion of Supervisor Antonovich, seconded by Supervisor Schabarum, duly carried by the following vote: Ayes: Supervisors Schabarum, Edelman, Dana and Antonovich; Noes: None (Supervisor Hahn being absent), the Board approved the County Citizens Economy and Efficiency Commission's report and recommendations on Contracting Policies with the provision that the details in the recommendations are subject to change as required for implementation.

The Chief Administrative Officer was instructed to work with the Task Force on Contracting Policy to refine the details of the recommendations as needed for implementation.

Further, the Chief Administrative Officer was instructed to work with the County Citizens Economy and Efficiency Commission on the implementation and the County Citizens Economy and Efficiency Commission was requested to report back to the Board within 90 days on the status of implementation.

(Continued on Page 2)

Syn. 142 (Continued)

Supervisor Edelman made the following statement:

"The Los Angeles County Citizens Economy and Efficiency Commission's report recommending expansion of Proposition A-related private sector contracting of County government functions raises the issue of employee impact. While I have supported some Proposition A contracts on an individual basis, I am concerned about the well being of County employees, many of whom have given years of dedicated, productive and loyal service to County government.

"The Commission report mentions the possibility of outplacement service, special termination pay, and creation of a special job retraining fund, etc. It also advocates giving preference to contractors who consider employee impact as part of their contract proposal.

"I therefore recommend that, when each new Proposition A-related contract comes before the Board for approval, that the Chief Administrative Officer prepare an Employee Impact Statement to be attached to each contract. The Employee Impact Statement shall:

- (1) Report on how many County employees will be affected by the letting of the private sector contract;
- (2) Assess the employee impact options to determine the comparative benefits of retraining, retirement, buyout or other options under consideration;
- (3) Detail how each employee is to be outplaced, whether through early retirement, transfer to another County job, hiring by the contractor or special termination pay;

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PREFACE

On August 19, 1986, on motion of Supervisor Schabarum, the Board of Supervisors asked The Economy and Efficiency Commission to report to the Board on progress made in the County's contracting program and on the Board's contracting policies.

Our task force, chaired by Theodore A9 Bruinsma, has examined the County's contracting policies in detail. This report contains its conclusions and recommendations. In supporting the study, our staff reviewed extensive literature on contracting elsewhere and detailed data describing the performance of the contracting efforts of Los Angeles County Government, including published documentation, requests for proposals, contracts, and budgets. The staff conducted over 50 interviews of County officials and contractors to solicit information and opinions. The report reflects the results of six task force meetings to define the issues and formulate recommendations for improvement.

County managers recognize contracting as an alternative to in-house production of services. We believe our recommendations will further advance the program so that Los Angeles County can more fully achieve the potential of contracting.

Chapter I of our report is a summary. Chapter II contains a discussion of our conclusions and recommendations. Chapter III documents the results of the Board's contracting policies and Chapter IV its current decision-making systems. The Appendices supply detailed description of our case studies, computations, and other background data.

LIST OF RECOMMENDATIONS

Recommendation 1: Goals

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement new contracting goals and programs which:

expand the scope of contracting to the mission functions of County government (County Code 2.104.380);

establish a clear priority on using contracting to improve County productivity through technology and organizational innovation (2.104.385);

identify areas for full privatization, including divestiture of County assets and operations to commercial enterprises.

Recommendation 2: Requests for Proposals

The task force recommends that the Board of Supervisors direct the CAO to work with department heads to revise the County's approaches to writing requests for proposals so that:

contracting encompasses a large enough proportion of the function to lead to overhead reduction within five years of award (2.104.420);

contracting focuses more on performance requirements of the work to be performed than on organization, staffing and labor inputs of the contractor (2.104.385);

where feasible, a contract can be used as a master agreement for purposes of expansion to additional bidders, departments, or workload without additional solicitations and proposals (2.104.300); proposals can include cost-plus as well as fixed price bids (2.104.320-370).

Recommendation 3: Employee Impact

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement improved methods of managing employee impact to achieve maximum savings from contracting, including at least the following (2.104.420):

outplacement services, special termination pay, early retirement, job training, and placement in County jobs;

set aside and carry-over from year to year of 5% or more of the annual savings from Proposition A contracting in a separate appropriation to fund the above programs;

preference for contractors whose proposals include plans for hiring County employees (2.104.380); active programs to encourage employees to form private firms to provide as contractors services which they now provide as employees. (2.104.295).

Recommendation 4: Incentives

The task force recommends that the Board of Supervisors direct the CAO to:

permit in-house organizations to submit proposals in the same competition as contractors, under the same conditions, when the County plans to contract out their work (2.104.280-420);

integrate the performance pay, bonus, suggestion award, and budget savings retention plans, and other financial incentive programs, into a single comprehensive program (6.08.300-380, 6.10.075, 5.60.010-260, 4.12.150);

link at least half of any financial incentive, including compensation increases awarded in the Pay for Performance Plan, to quantified productivity improvement goals measured at the program level (6.08.320, 330).

Recommendation 5: Monitoring and Reporting

We recommend that the Board of Supervisors direct the Chief Administrative Officer to implement, to the extent feasible, a single policy governing all forms of County contracting. The policy would include:

reporting of each department's contracting plan in the published proposed budget for each type of contracting, and quarterly reporting by the CAO of the results, by type of contracting (4.12.070);

central records in the Chief Administrative Office of the basic analytical and descriptive data in such County contracts of all types (2.08.070);

CAO responsibility to periodically evaluate the results of the County's contracting programs with emphasis on their effects on program-level productivity improvements (2.08.040);

increased integration of County-wide departmental productivity and contracting programs, including increased authority for contract and productivity managers (3.51.010-120, 2.104.250-420).

I. EXECUTIVE SUMMARY

This Chapter contains a list of recommendations with abbreviated discussion. Chapter II contains a full discussion of each recommendation.

Background

Los Angeles County contracts out over \$800 million (20%) of its \$4.2 billion operating budget. Proposition A contracting, for work formerly performed exclusively by County employees, amounts to \$47 million (1% of budget) and generates annual savings amounting to \$24 million. We estimate cost avoidance from all forms¹ of contracting at \$133 million. The contracting program in Los Angeles County is more advanced than in other County governments and most municipalities in the United States. We do not discount the achievement. Nevertheless, the Proposition A contracting program is not performing up to its potential.

Proposition A contracting is unique in that contractors either replace present County employees or perform work for which the County would otherwise hire new permanent employees. This means that the County maximizes savings with such contracting only when it also reduces its labor force. Implementing Proposition A raises intricate questions of public policy which the County has so far only partly resolved. We believe it is timely for the Board of Supervisors to strengthen

¹In addition to contracting authorized by Proposition A (\$47 million), the County contracts when legislatively mandated (\$732 million) and when permitted within the civil service context (\$63 million). See pp. 34-36 and Chapter IV for definitions.

policy regarding contracting, particularly Proposition A contracting.

Our first recommendation outlines a goals program to expand contracting where it improves productivity. Our remaining recommendations propose redirection of policy in the areas of requests for proposals, employee impact, incentives, and monitoring and reporting of results. These are the crucial policy areas for implementation of Proposition A. We cite sections of the County Code which are relevant in the sense that either the Code, its interpretation, or current practice should be revised to implement our recommendation.

Recommendation 1: Goals

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement new contracting goals and programs which: expand the scope of contracting to the mission functions of County government (County Code 2.104.380);

establish a clear priority on using contracting to improve County productivity through technology and organizational innovation (2.104.385).

identify areas for full privatization, including divestiture of County assets and operations to commercial enterprises;

Discussion. To date, the scope of Proposition A contracting has been limited. Eighty-four percent of the work contracted consists of such internal services as custodial work in County buildings, laundry and food services, grounds maintenance, data entry, and security guards.

The intent of our recommendation is to shift the focus of the Proposition A effort to long-term productivity improvement in mission functions of County government. Contracting internal

service jobs has been beneficial. However, real gains can be expected when the County starts using contracts to produce main mission services.

The Board can most effectively broaden the scope of contracting by asking external sources to participate directly in the work of identifying high-potential areas. Otherwise, the only source of information the Board can use is internal producers of the same services. The Local Government Center of the Reason Foundation, our commission, the Economic Development Corporation, and the Private Industry Council are all in a position to assist the Board in creating new privatization initiatives. Internally, the Asset Development Division and the Finance and Operations Branch of the Chief Administrative Office (CAO), as well as departmental executives, should participate.

Recommendation 2: Requests for Proposals

The task force recommends that the Board of Supervisors direct the CAO to work with department heads to revise the County's approaches to writing requests for proposals so that:

contracting encompasses a large enough proportion of the function to lead to overhead reduction within five years of award (2.104.420);

contracting focuses more on performance requirements of the work to be performed than on organization, staffing and labor inputs of the contractor (2.104.385);

where feasible, a contract can be used as a master agreement for purposes of expansion to additional bidders, departments, or workload without additional solicitations and proposals (2.104.300);

proposals can include cost-plus as well as fixed price bids (2.104.320-370).

Discussion. A number of authorities have questioned the Auditor-Controller's methods of certifying savings based on avoidable costs. We agree with the Auditor-Controller on this point. The real issue is that most Proposition A contracting is too small to reduce the costs of management and administration. Seventy-five percent of the contracts awarded amount to \$200,000 or less and affect 15 or fewer positions. In addition, some businesses refuse to bid for County work because requests for proposals specify such details as staffing levels and supervisory ratios.

The intent of our recommendation is to focus the County's effort on defining contracting programs in terms of functions and outputs at a significant enough scale to reduce managerial and indirect costs, as well as direct labor costs. By proposing master agreements and cost-plus contracting we intend to make performance-based contracting easier to accomplish.

Recommendation 3: Employee Impact

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement improved methods of managing employee impact to achieve maximum savings from contracting, including at least the following (2.104.420):

outplacement services, special termination pay, early retirement, job training, and placement in County jobs;

set aside and carry-over from year to year of 5% or more of the annual savings from Proposition A contracting in a separate appropriation to fund the above programs;

preference for contractors whose proposals include plans for hiring County employees (2.104.380);

active programs to encourage employees to form private firms to provide as contractors services which they now provide as employees. (2.104.295).

Discussion. Proposition A contracting has not substantially reduced the County's workforce. Over 1,060 of the 1,320 employees whose jobs were eliminated by contracting still work for the County in similar jobs. Of the 1,320, 805 (61%) transferred to equivalent positions, 224 (17%) were promoted, 128 (10%) went to work for the contractors, 96 (7%) left County service, 35 (3%) were laid off, and 32 (2%) were demoted. The County rehired 26 (74%) of the 35 laid off.

We believe the Board of Supervisors should face the workforce reduction issue squarely. No one wants layoffs. The intent of our recommendation is to concentrate effort and resources on modern methods of actually reducing the workforce. The program we recommend will increase control while permitting significant reductions in force. Such newer methods as outplacement assistance and special termination pay are useful in assisting employees to find work elsewhere, thus reducing the adverse impact. In addition, we believe the County should pursue such promising alternatives as employee-owned businesses and transfers to employment by contractors more aggressively than it has.

Recommendation 4: Incentives

The task force recommends that the Board of Supervisors direct the CAO to:

permit in-house organizations to submit proposals in the same competition as contractors, under the same conditions, when the County plans to contract out their work (2.104.280-420);

integrate the performance pay, bonus, suggestion award, and budget savings retention plans, and other financial incentive programs into a single comprehensive program (6.08.300-380, 6.10.075, 5.60.010-260, 4.12.150);

link at least half of any financial incentive, including compensation increases awarded in the Pay for Performance Plan, to quantified Productivity improvement goals measured at the program level (6.08.320, 330).

Discussion. Whether in government or business, people will not readily decide to contract out the mission services of their organizations. To do so would be to give business to competitors. On the other hand, promoting fair competition in the interests of improved Productivity could succeed, provided the rewards to employees are significant enough.

The intent of our recommendation is to establish a formal system of competition in Proposition A procurements and to establish a direct link between measured Productivity improvement and the financial rewards to managers and employees. First, competition between alternative producers of public services was the central point of Proposition A. In the absence of such competition, public service producers are monopolies and behave like monopolies. The kind of formal system we propose works in several places in the United States and is Supported by public employees as well as the business community in those places. Second, the County has implemented Several incentive programs to link compensation to managerial goals. We believe the goals should specify measurable savings from productivity improvements.

Recommendation 5: Monitoring and Reporting

We recommend that the Board of Supervisors direct the Chief Administrative Officer to implement, to the extent feasible, a single policy governing all forms of County contracting The policy would include:

reporting of each department's contracting plan in the published proposed budget for each type of contracting, and quarterly reporting by the CAO of the results, by type of contracting (4.12.070);
central records in the Chief Administrative

Office of the basic analytical and descriptive data in such County contracts of all types (2.08.070);

CAO responsibility to periodically evaluate the results of the County's contracting programs with emphasis on their effects on program-level productivity improvements (2.08.040);

increased integration of County-wide departmental productivity and contracting programs, including increased authority for contract and productivity managers (3.51.010-120, 2.104.250-420).

Discussion. The County has three distinct management and decision-making systems for contracting - mandatory, sundry services, and Proposition A. In all cases, decision-making is highly decentralized. Department heads appointed by the Board of Supervisors are accountable for and manage the contracts. The role of the CAO is to exercise leadership through the County's powerfully centralized budget process and through the goal setting process implemented for the Pay for Performance Plan.

The intent of our recommendation is to provide the Board of Supervisors with continually updated, accurate and comprehensive information about what is being contracted, and to what effect. The CAO should be responsible because of his budgeting responsibility. In reporting, the CAO should recognize the real differences between mandatory, sundry service and Proposition A contracting. Aggregates of all contracting will not provide an accurate picture of the use of contracting to achieve improvements, as opposed to the use of contracting because it is illegal or impossible to do anything else. Finally, each department should integrate the management of all contracting in a single administration and link contracting efforts to productivity improvement programs.

Conclusion

To improve the performance of the contracting program, the Board of Supervisors should establish

a goals program to decide what should be contracted,

improved methods of deciding when contracting is better than in-house production,

improved employee impact and incentives programs to ensure the cooperation of management,

centralized CAO authority to monitor and evaluate to ensure departmental compliance with the goals.

II. CONCLUSIONS AND RECOMMENDATIONS

Contracting is not new in Los Angeles County government. The County contracts out more than \$800 million of its \$4.2 billion operating budget. What is new is contracting for work formerly performed exclusively by County employees. The electorate authorized such contracting by its decisive (66%) vote favoring Proposition A in 1978. Subsequently, the Board of Supervisors established high priority on contracting when effective.

The contracting program in Los Angeles County is more advanced than in other County governments and most municipalities in the United States. Nevertheless, the contracting program is not performing up to its potential. The results² are these:

Purchases of all kinds from the private sector have declined as a percentage of the total County budget. The ratio of purchases of all kinds to salaries and benefits has declined from 87% in 1979-80 to 76% now.

Annual savings and cost-avoidance from all forms of contracting amount to \$133 million. Based on available research and on documented County results, the County could achieve annual savings at the \$400 million level.

The implementation of Proposition A contracting has slowed significantly. Eighty-two percent of the savings originated before June, 1985.

²Unless specified, the data in this report apply to fiscal year 1985-86, the most recent full year available when we began our study. In a few instances, we used data for later periods as it became available.

Most Proposition A contracting affects low level, low paying internal service jobs, rather than mission functions of County government. Eighty-four percent of the positions reduced by Proposition A contracting have been in janitorial, food service, security, data conversion, groundskeeping, and laundry service jobs - jobs paying \$2,000 monthly or less.

Most Proposition A contracting is too small to reduce the costs of management and administration. Seventy-five percent of the contracts awarded amounted to \$200,000 or less and affected 15 or fewer positions.

Some businesses refuse to bid for County work because of the County's procurement practices. In recent interviews, business executives frequently cited poorly designed procurements and extraordinary costs as reasons for declining to bid for County work.

Proposition A contracting has not substantially reduced the County's workforce. Over 1,080 employees of the 1,320 whose jobs were eliminated by Proposition A contracting still work for the County. The County rehired 26 of the 35 laid off. Contractors hired fewer than 10%. The County has reserved funds for retraining, but has used them sparingly.

The County operates three distinct management and decision-making systems for contracting, with three distinct policies and control mechanisms depending on the authorization under which the decision to contract is made. The three apply to Proposition A, legislatively mandated, and sundry services contracting.

We reviewed results and the County's 5 systems for legislatively mandated, sundry services, and Proposition A contracting. We found few issues bearing on mandated and sundry services contracting. More important, the County has institutionalized appropriate control machinery and can isolate and correct deficiencies for such contracting. We found significant policy issues relevant to the implementation of Proposition A.

³ Interview data from Ruta Skirius, Ph.D., Integrative Planning Associates, for Chief Administrative Office, County of Los Angeles, July, 1987.

Proposition A contracting is unique in that contractors either replace present County employees or substitute for new employees who would otherwise be hired to fill vacancies or to perform new work. Avoidance of new hiring holds down cost increases - cost avoidance rather than savings. Contracting produces hard dollar savings, i.e., reduces existing costs, only when the County also reduces its labor force. Therefore, effective Proposition A contracting requires policy decisions which have never before arisen in the County's career-oriented, professional employment system. In this study, our task force concentrated on contracting policy, particularly policy implementing Proposition A.

To be effective, such contracting requires

- a goals program to identify what the County should contract;

- sound methods of deciding when contracting is better than in-house production;

- employee impact and incentive programs to ensure the cooperation of management;

- centralized CAO accountability for monitoring and evaluation to ensure departmental compliance with goals and regulations.

In the nine years since passage of Proposition A, Los Angeles County has built annual savings up to the \$24 million level (0.8% of payroll). The County has conceived and awarded over 850 contracts. County managers recognize contracting as an alternative method of producing services. In addition, the Board of Supervisors, the Chief Administrative Officer (CAO) and several departments have recently initiated programs to improve the performance of the contracting program. For example, the

District Attorney's contract for child support functions will be large enough to affect indirect costs and will encompass a mission function. Similarly, the recent requests for proposals in such areas as printing, workers' compensation, and fleet maintenance include County-wide services.

In this report, our task force proposes means of accelerating such initiatives. We believe the Board of Supervisors should further expand contracting where it improves productivity, particularly in mission areas. Our first recommendation outlines a goals program to do this.

In addition, in order to improve the performance, the Board of Supervisors should adopt new policies addressing four central issues: employee impact, incentives, the design of requests for proposals, and the systems of monitoring and reporting results. Our remaining recommendations propose redirection of policy in these areas. When applicable, we cite sections of the County Code which are relevant to the recommendation in the sense that either the Code, its interpretation by County departments, or its realization in County processes should be revised to implement the recommendation.

Recommendation 1: Goals

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement new contracting goals and programs which:

expand the scope of contracting to the mission functions of County government (County Code 2.104.380);

establish a clear priority on using contracting to improve County productivity through technology and organizational innovation (2.104.385);

identify areas for full privatization, including divestiture of County assets and operations to commercial enterprises.

In the current County system, the goals of contracting depend on the legal authority under which the County makes contracting decisions. The goals of mandated and sundry services contracting are clear. In the case of Proposition A contracting, however, we found little agreement on the overall goals.

The central point of Proposition A was to establish competition between public and private sector organizations to produce public services. The pressure on private organizations to earn a return on invested capital forces them to produce at peak efficiency. The competition for resources forces down the costs of both public and private producers. Moreover, competition supplies the incentive for both to introduce innovations which can lead to new economic development in the region. In the absence of such competition, public service producers are monopolies and behave like monopolies.

The first element in the program we recommend would expand the scope of contracting to include mission service delivery. No service or function should be exempt. Some jurisdictions in the United States have successfully contracted out fire suppression, paramedic services, hospital care, corrections management, and other governmental mission functions. So far, Los Angeles County government has implemented contracting for few such mission functions. Instead, the County contracts for low level internal services - custodial, maintenance, food service, security guards, and so forth.

Whether in government or business, people will not readily decide to contract out the mission services of their organizations. To do so would be to give business to competitors. If the goal of Proposition A is to break up the civil service monopoly by permitting private business to compete, the first question is, who is to decide which services to contract - who can choose fairly between a County department and an alternative producer?

Some level of management higher than the competing department must decide when and how to contract for mission functions, must manage the competition, and must choose between in-house and contract alternatives. The only County organization with sufficient authority to make such decisions is the Board of Supervisors.

We believe that the Board can most effectively broaden the scope and range of contracting by asking external sources to participate directly in the work of identifying high-potential areas. The Economic Development Corporation, the Private Industry Council, the Local Government Center of the Reason Foundation, and our commission are all in a position to assist the Board in creating new privatization initiatives. In addition, the Asset Development Division of the Chief Administrative Office (CAO) has implemented several public-private partnerships. The Finance and Operations Branch has developed a new planning framework for contracting. Our point is that the Board of Supervisors should exercise the leadership to link all of these fragmented efforts into one program.

Second, the perception is rare among County managers and employees that Proposition A contracting is intended to improve the productivity of public service programs, or that it can assist in the development and application of improved technology and organization to County functions, or that it has anything to do with economic development opportunities. The idea that competition between public and private providers can improve the performance of both is generally absent from the County system. Yet such positive goals are the basis on which Proposition A was sold to the electorate in 1978.

We believe the clear stated priority of the program should be to improve productivity. A few Proposition A contracts have accomplished this. For example, contractors achieved economies by introducing new technology in the cases of closed case storage for the Department of Public Social Services and transcribing for the Probation Department.

However, since Proposition A permits hiring private contractors for jobs currently held by County employees, many employees assume that the goals are negative - to replace inefficient civil service personnel with private employees who somehow always perform better. They believe that saving current budget dollars by eliminating County jobs is the only goal. Reorientation to productivity would create a major improvement in the approach of most managers to the Board's contracting priority.

Third, it should be possible to identify mission functions and operations of County government which can be fully privatized - that is, sold to a commercial enterprise, or created by employees as a commercial enterprise to enter the open market. Such opportunities have been identified elsewhere. The Local Government Center of the Reason Foundation and the Law and Economics Center of the University of Miami have found successful examples of such cases, which they term "service shedding."⁴

To take advantage of the incentives to improve technology and organization that result from competition, the County should focus its efforts on contracting for functions and services rather than on internal support labor. In our second recommendation, the task force proposes methods of accomplishing this goal.

Recommendation 2: Requests for Proposals

The task force recommends that the Board of Supervisors direct the CAO to work with department heads to revise the County's approaches to writing requests for proposals so that:

contracting encompasses a large enough proportion of the function to lead to overhead reduction within five years of award (2.104.420);

contracting focuses more on performance requirements of the work to be performed than on organization, staffing and labor inputs of the contractor (2.104.385);

where feasible, a contract can be used as a master agreement for purposes of expansion to additional bidders, departments, or workload without additional solicitations and proposals (2.104.300);

⁴Kenneth Clarkson, Philip Fixler, et al., The Role of Privatization in Florida's Growth (Tallahassee, FL: Florida Chamber of Commerce Foundation, 1987), p. 388.

proposals can include cost-plus as well as fixed price bids (2.104.320-370).

First, County officials, the business community and potential contractors often question the Auditor-Controller's method of accounting to certify savings by comparing County costs to proposed contract costs. His position is that only avoidable costs will actually be reduced. In most cases, departments limit their procurement of contracted services to direct labor. They do not incorporate plans to reduce management and administration or other indirect costs. In effect, this means that the contractor's total costs must be lower than the County's direct labor costs.

We concur with the Auditor-Controller on this point. The Auditor's method is not the relevant question. Rather, the issue is the design of the requests for proposals, because it is the definition of the work to be contracted, as documented in a Request for Proposal, that determines which costs are avoidable and which are unavoidable. The Auditor-Controller's published guidelines for cost comparison provide for including indirect costs when they would be reduced. In most cases, departments define the work at so small a scale and at so low a level that the Auditor-Controller cannot recognize management or other overhead and indirect costs because no such costs will be affected by the contract. Indeed, in some cases overhead costs may increase, since the department transfers workers displaced by contractors to supervisory positions created for contract monitoring. The Auditor-Controller is just a reporter. The business decisions of the department are the determining factors.

Therefore, the real issue is not the computation. It is the department's decision to design the procurement in a way that limits savings. We believe County departments should design contracts to incorporate a large enough scale of operations to reduce management and administrative costs. The department may not be able to achieve the resulting savings in the first year of award. Therefore, we propose that up to five years, if necessary, be taken into account for phase-in. The Auditor could certify the savings to be achieved from a plan to reduce overhead in the contracted area over a five-year period. Savings could be recognized as they occur during the implementation of the plan. The Auditor concurs that such an approach would be consistent with the existing cost model used to calculate savings. That is the point of the first element of our recommendation.

Second, one of the primary theories supporting extensive contracting is that contractors will employ superior organization, technology, or management technique to achieve increased productivity over County production. This will hold, however, only when the specifications of the contract are written in a way that supports it. Contractors cannot use improved technology if the contract specifies the tasks in some detail rather than the results to be achieved, or if it requires that they must use County facilities and equipment. Contractors will not use superior organization if the contract specifies that they must load crews with levels of supervision equal to or exceeding those of the County. Such provisions are not uncommon in County Requests for Proposals (RFP's).

Thus, the second point of our recommendation is intended to increase the probability that contracts will improve overall system productivity rather than merely shift direct labor to contractors. In our case studies (Appendices C and E-G), we found that the conditions and specifications in RFP's can prevent contractors from achieving savings by improving technology or organization. Rather, some RFP's require a near duplication of the County system. Such specifications, combined with the County's low bid policy, force even large companies to base their bids on the lowest possible wages in order to compete. In the cases we examined, County wages for the work contracted do not greatly differ from community averages for similar work. However, contracts are often awarded to firms whose wages are below average. The result is to decrease the compensation of labor rather than to increase its productivity.

Third, the County's current processes require each individual contract to meet the tests and follow the procedures established for Proposition A contracting. We think that the County should modify the process so that successful operation of contracts for a given service can be repeated without requiring multiple solicitations and proposals to individually meet every test. Further, the CAO should maximize the use of contractor pre-qualification and master agreements for services that can be replicated in several departments.⁵

⁵It is our understanding that the CAO will be recommending Board action on such improvements.

Finally, if procurements are to encompass entire functions, including mission functions, and focus on productivity improvement, some may not fit easily into the fixed-price model of costing. Instead, departments may wish to request proposals that permit both the potential contractors' definition of the work and the cost to vary. "Cost-plus" contracting can assist in cases where performance requirements permit a broad range of proposed contractor approaches. If contractors can use "cost-plus" agreements, County decision-makers will be better able to compare pricing based on proposed innovations.

In summary, if they are to achieve productivity gains through competition, Proposition A contracts should meet the following criteria:

they must encompass entire functions;

the specifications must be for job performance rather than for labor inputs and should permit proposals to modify the delivery system;

contracting methods should include master agreements and cost-plus pricing.

Concern for employee impact is one of the reasons why departments design contracting efforts at a small scale and specify details of organization and operation. Moreover, employee impact will be increased if the Board implements this recommendation to increase the scale and our previous recommendation to increase the scope of contracting to include whole mission programs. Our next recommendation addresses employee impact issues.

Recommendation 3: Employee Impact

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement improved methods of managing employee impact

to achieve maximum savings from contracting, including at least the following (2.104.420):

outplacement services, special termination pay, early retirement, job training, and placement in County jobs;

set aside and carry-over from year to year of 5% or more of the annual savings from Proposition A contracting in a separate appropriation to fund the above programs;

preference for contractors whose proposals include plans for hiring County employees (2.104.380);

active programs to encourage employees to form private firms to provide as contractors services which they now provide as employees. (2.104.295).

The Board of Supervisors, the public and County managers must recognize that achieving real savings through Proposition A contracting means that current employees must leave County service. Otherwise, the County is spending more, not less, in awarding most contracts. So far, the County has relied on attrition, contractor hiring, and reassignment to County jobs to reduce the work force affected by contracting.

These methods do not work. The County's work force and the proportion of the County budget spent on salaries and benefits of employees have increased since 1978. First, attrition is too slow. For example, during calendar 1985, 3,820 permanent employees in all job classifications (5% of the total workforce) left County service for some reason. Second, contractors have hired fewer than 10% of the 1,320 permanent employees displaced by contracting since 1982. Third, reassignment of personnel to County jobs which could themselves be contracted does not reduce the work force. In addition, it creates barriers to further contracting, and thus to further savings. To achieve savings

using Proposition A contracting, the Board of Supervisors must find effective means to reduce the labor force, including layoffs if necessary.

We believe the Board of Supervisors should face the layoff issue squarely. No one wants layoffs. But savings using Proposition A contracting without reducing the size of the work force amount to cost avoidance. The additional costs of the contracted work are lower than they would have been had the County hired new permanent employees instead of contractors. But the County continues spending the original amounts.

County officials are averse to layoffs for two reasons. First, layoffs of employees may have negative social consequences of the very kind that many County services are designed to prevent or ameliorate. Savings from contracting could be offset by the welfare and unemployment benefits to affected County employees who remain unemployed for any extended period. Second, the internal organizational effects of layoff are not benign. The process is subject to the seniority rules of civil service and collective bargaining agreements. Management has little or no control over who actually leaves. The program we recommend will increase control while permitting significant reductions in force.

First, considerable effort will be needed to find and implement alternatives for placement of senior employees affected by contracting. The County has used early retirement and placement in County jobs. In addition, a concerted effort is needed to establish and implement such modern programs as outplacement or special termination pay. The key strategy is to

encourage the departure of affected employees while providing them with sufficient time to take advantage of County assistance and resources to locate jobs elsewhere.

Second, in 1981, the Board of Supervisors adopted policy to reserve 5% of the savings from contracting for retraining of employees whose jobs would be eliminated as a result of contracting. Less than 5% has been appropriated, and little has been used. If the policy were in force, \$3.6 million would be available now for impact reduction programs. In the second element of our recommendation, we propose appropriation of the full 5%, carryover from year to year of unspent funds, and authority to use them for all impact assistance rather than to limit them to training.

In addition, the reserve of 5% of savings is not the only funding source which can be tapped for retraining of employees. The County has already obtained training from various educational institutions which have absorbed the cost or have been reimbursed by other sources. The Board should tap additional resources through the JTPA program (Job Training Partnership Act), the Private Industry Council, the Economic Development Corporation and other linkages with the vocational education industry and local employers.

Third, the County's stated policy is to encourage contractors to offer new jobs created by the contract to displaced County employees before hiring anyone else. However, only one contractor has employed affected County personnel on any significant scale. In addition, some potential contractors are constrained by their own collective bargaining agreements

from committing to such hiring - the agreements oblige them to hire their own former employees first. We believe that evaluation points should be awarded to contractors based on the quality of their proposals for addressing the issue of the impact on County employees. In addition, the selection process should take into account the economic value to the County of a bidder's proposal for hiring or assisting displaced County employees. Strong provisions are also needed to limit the options of employees who refuse contractors' offers.

Finally, Los Angeles County prohibits its employees from forming their own companies and contracting with the County except in special circumstances. The provision can be waived, but the widespread perception among County officials is that it prevents them from forming companies to compete. We propose a program to encourage employees to form companies which will enter the commercial marketplace and compete on an equal footing with others proposing County business. Such companies could be given initial short-term assistance by the Board of Supervisors, including favorable treatment in the first procurement effort. Several large corporations have implemented similar programs, and a few public jurisdictions have experimented with them at various levels of success.

Employees who are hired by the contractor or who form their own firm would leave the County service but not become unemployed. This is more similar to a transfer than to an actual layoff. Thus, the programs we recommend would provide means to use contracting to actually reduce the size of the work force while protecting employees.

In our first three recommendations, we have concentrated on what should be contracted, the scale of contracting, and methods of controlling employee impact. In our next recommendation, we take up the subject of incentives to encourage County managers to implement an expansion of Proposition A contracting.

Recommendation 4: Incentives

The task force recommends that the Board of Supervisors direct the CAO to:

permit in-house organizations to submit proposals in the same competition as contractors, under the same conditions, when the County plans to contract out their work (2.104.280-420);

integrate the performance pay, bonus, suggestion award, and budget savings retention plans, and other financial incentive programs, into a single comprehensive program (6.08.300-380, 6.10.075, 5.60.010-260, 4.12.150);

link at least half of any financial incentive, including compensation increases awarded in the Pay for Performance Plan, to quantified productivity improvement goals measured at the program level (6.08.320, 330).

Incentives are basically irrelevant for legislatively mandated contracting and sundry services contracting. For Proposition A contracting, the perceived goal of replacing County employees creates a barrier to effective incentives. On the other hand, incentives which promote fair competition in the interests of improved productivity would succeed, provided the rewards to employees are significant enough.

Supervisor Peter F. Schabarum advocated Proposition A because "the availability of this contracting provision [will] provide a spirit of competition between private sector firms and our employees who would be performing the same service."⁶

⁶Los Angeles Times, October 22, 1979.

The first point of our recommendation will realize this goal of Proposition A contracting - an intentional strategy to use direct public-private competition to obtain the best combination of price and performance from whichever production source can offer it. It works in Phoenix and in some Federal operations. It has not yet been tried in Los Angeles County.

In May, 1986, the Board of Supervisors adopted our recommendation to implement this policy for services provided by one County department to another. County officials have drafted an ordinance amendment to implement it. They are presently circulating the draft for review prior to presentation to the Board for adoption. Our current recommendation is to incorporate this policy in all major procurements of contracting for services which would replace an in-house producer with a contractor. Amending the ordinance to increase competition between existing in-house and potential external providers of a service would increase the probability of productivity improvements and savings. The experience in Phoenix, for example, has been that the public employees lost the award in several instances, then won it back after a few years by introducing productivity improvements in their proposals.

The opportunity to compete is not likely to be sufficient incentive to lead to improvement. Private sector companies reward their employees financially based on quantified profit goals. The Board of Supervisors cannot establish profit goals for County government operations, but it can insist that the goals on which it will base performance pay and other awards be quantified in terms of whole program productivity, rather than

merely labor cost savings, as we outlined in Recommendations 1 and 2 above. That is the point of the second and third elements of our recommendation. They would link compensation and rewards to downstream cash-flow consequences of contracting as a method of improving the productivity of County operations.

As we pointed out in our discussion of mission service contracting (Recommendation 1), it is unlikely that operating County departments will themselves initiate efforts permitting private companies to contract for the services they provide. Further, it is unlikely that such efforts would be believed by many as well-conceived or fair. For example, if a private fire suppression company is to compete with the County's, who will make the selection? Surely no one in the County Fire Department would be credible, even if willing, to award fire suppression to competitors. Regardless of the incentives, we believe it unlikely that hospital managers will propose contracting hospital management, or that the Probation Department will enthusiastically propose contracting out corrections management. Therefore, in addition to the external sources we suggested in Recommendation 1, we believe that the CAO should accept responsibility for assisting the Board to make the system work. We take up this issue in Recommendation 5.

Recommendation 5: Monitoring and Reporting

We recommend that the Board of Supervisors direct the Chief Administrative Officer to implement, to the extent feasible, a single policy governing all forms of County contracting. The policy would include:

reporting of each department's contracting plan in the published proposed budget for each type of contracting, and quarterly reporting by the CAO of the results, by type of contracting (4.12.070);

central records in the Chief Administrative Office of the basic analytical and descriptive data in such County contracts of all types (2.08.070);

CAO responsibility to periodically evaluate the results of the County's contracting programs with emphasis on their effects on program-level productivity improvements (2.08.040);

increased integration of County-wide departmental productivity and contracting programs, including increased authority for contract and productivity managers (3.51.010-120, 2.104.250-420).

The new Chief Administrative Officer, Richard B. Dixon, has declared his intent to decentralize responsibility for decision-making for Proposition A contracting, just as it already is for sundry service and mandatory contracting. His point is that the departments are ultimately accountable to the Board of Supervisors for the effective and efficient operations of County programs.

We concur. Contracting will be successful as a means of improving productivity only if the department heads implement the effort. They know their operations and the requirements better than anyone, and they alone are in a position to make the program work. Moreover, the County's powerfully centralized budget process provides a mechanism for the CAO to exercise leadership. Similarly, the CAO influences goals adopted for the Pay for Performance Plan by department heads. These goals should include contracting, formulated in terms of quantified productivity improvement, as we pointed out in Recommendation 4, above. Therefore, the CAO has the necessary resources in his current organization to accomplish what we recommend, including the implementation of Recommendation 1, to identify mission services as candidates for contracting.

The first point of our recommendation is that a decentralized decision-making system can be effective only when accompanied by strong and continuous monitoring. By monitoring, we do not mean auditing. We mean that the Board of Supervisors must have continually updated, accurate and comprehensive information about what is being contracted, by whom, and to what intended and actual effect. The CAO should be responsible because of his budgeting responsibility. The Auditor-Controller should perform financial post-audits of all forms of contracting, to ensure that the departments are achieving the intended savings.

Second, the CAO has revised the content of reports to the Board to aggregate all forms of contracting rather than distinguish Proposition A from the more traditional types. In our view, the CAO's information system and reporting should be designed to recognize the real differences between mandatory, sundry service and Proposition A contracting. Aggregates of all contracting will not provide an accurate picture of the use of contracting to achieve improvements, as opposed to the use of contracting because it is illegal or impractical to do anything else. Therefore, we intend the second point of our recommendation to provide for a central record of all departmental contracting activity and to provide the capability to distinguish among the results of the various kinds of contracts.

Third, the utility of data gathering and reporting is complete only when analysis and evaluation follow, leading to improvements in the contracting program. The CAO has the staff

resources and County-wide role to accomplish in-depth program evaluation.

Finally, each department has already established the organization and staffing necessary to decentralize contracting decisions. Each has designated one position as contract manager. At present, however, they are rarely positioned at a high level in the department, and none has authority to propose or decide what should be contracted or when. They focus on maintaining the Proposition A process. Moreover, their contracting programs have no link to their departments' productivity improvement programs, which also have designated managers assigned elsewhere in the organization. Those we interviewed saw little in common between the two efforts. In our view, divorcing contracting from productivity improvement undermines both. Therefore, we recommend that the Board establish alignment between the two programs.

III. RESULTS OF THE CONTRACTING PROGRAM

In this section of our report, the task force discusses the results of the contracting program. First, we review the overall results. Second, we review the results of various forms of contracting practiced by the County - mandatory, sundry services, and Proposition A. Third, we explain in detail the current results of the contracting programs established following the 1978 Charter amendment, Proposition A.

The overall public policy question -- whether contracting should be used by Los Angeles County Government to produce services currently performed by civil service employees -- has been settled. The public established contracting as an alternative to civil service employment in its decisive (66%) 1978 vote adopting Proposition A. The Board of Supervisors has placed a priority on contracting with private firms for cost reduction.

Overall Investment

To determine the overall impact of the contracting program, our task force examined purchases of goods and services in all forms as a percentage of the County budget. As a matter of public policy, this general definition of contracting is important because it represents the amounts returned by the County to private sector producers of goods and services. It measures the County's commitment to investment in private production, rather than to making or building its own goods, thus also curtailing the growth of the size of government.

The data in Table I show that such purchases are a less significant component of the County budget now than they were in 1979-80. Excluding such transfer payments as welfare grants and grants to other governments, the ratio of purchases to salaries and benefits declined from 87% in 1979-80 to 76% in 1986-87.

TABLE I
PURCHASES FROM PRIVATE SUPPLIERS
COMPARED TO IN-HOUSE PRODUCTION

Los Angeles County
(\$ Millions)

	Fiscal Year		
	<u>1979-80</u>	<u>1983-84</u>	<u>1986-87</u>
Salaries & Benefits	\$1,703	\$2,307	\$2,804
Services & Supplies	\$1,377	\$1,432	\$1,761
Fixed Assets	\$ 112	\$ 168	\$ 372
TOTAL	\$3,192	\$3,907	\$4,936
Purchases / Total	47%	41%	43%
Purchases / Salaries	87%	69%	76%
Funded Positions	75,730	70,511	74,187
Average Work Force	76,803	71,990	77,957

SOURCE: Annual County Budgets, Proposed Budgets, and Employee Population Reports.

Types of Contracting

The County practices three distinct types of contracting for services: "mandatory", "sundry", and "Proposition A". "Mandatory" contracts are those for which in-house production is illegal or contrary to tradition. "Sundry services contracts are those for which in-house production is not feasible, regardless of its cost relative to contract production. In particular, sundry service contracts include those formerly permitted under the court decisions regarding civil service. (See Chapter IV for a full discussion of the differences.)

"Proposition A" contracts are those authorized by the County Charter amendment approved by the electorate in 1978, allowing the Board of Supervisors to contract for work which is currently performed or could be performed by County civil service employees. "Proposition A" contracting requires a serious analysis of its costs and benefits. In contrast, the issues of costs and savings are irrelevant in the case of mandatory and secondary in the case of sundry services contracts.⁷ Table II below summarizes the definitions and provides examples.

TABLE II
DEFINITION OF CONTRACTING TYPES

	Los Angeles County 1987		
	Mandatory	Sundry	Proposition A
Law or Custom	requires	authorizes	formerly prohibited
Funding Source	requires	indifferent	may restrict or influence
Typical Provider	private for profit or non-profit	private for profit	private for profit
Examples	mental health Construction Concessions Leases	consulting data processing secretarial overflow	custodial security food service dialysis

The data in Table I above include amounts for the purchases of goods as well as all of the above types of contracting for services. Table III below contains data describing the current

⁷The words are not intended for a precise legal interpretation, and the groups are not necessarily mutually exclusive. We include in "mandatory" some contracting which the County and most companies utilize without statutory requirements, and we include in "sundry services" some for which cost-effectiveness decisions are required.

value of County contracts awarded by the Board of Supervisors⁸ for all kinds of contracting. Thus, Table III excludes outright purchases of goods, but includes amounts for leases and concessions.

The bulk (87%) of the County's contracting is for services and programs for which the County must contract. These contracts are called mandatory, not because the service is mandated but because, if it is provided, law or custom requires that it be contracted. Of the \$732 million awarded for mandatory contracts during 1985-86, \$239 million was for construction, \$398 million for various mental health and social services, \$86 million for leasing of equipment, and \$9 million for a variety of other services. In addition, the County generates net revenue of \$12 million from concessions.

TABLE III
TYPES OF BOARD-AWARDED CONTRACTS

Los Angeles County 1985-86	
	Level of Awards (\$ Millions)
Mandatory	732
Sundry Services	63
Proposition A	<u>47</u>
TOTAL	842

Source: CAO's Report on Board-Awarded Contracts, July 31, 1986

Of the remaining \$110 million contracted for personal services, \$63 million (56%) is for sundry services which the County cannot reasonably produce in-house. The amount includes

⁸ Sundry service contracts for less than \$25,000 are not included, since few require a decision of the Board of Supervisors.

\$16 million for data processing, \$9 million for consulting services, \$8 million for architectural and engineering services, \$4 million for equipment service and repair, \$4 million for secretarial services, \$4 million each for printing and related services, \$4 million for grounds maintenance, \$3 million for vehicle service and repair, and \$11 million for a variety of other technical, specialized or intermittent services.

Proposition A contracting accounts for \$47 million, or 6%, of the total \$842 million in force as of June 30, 1986; Of that amount, \$39 million was for five types of services: \$9 million for janitorial and custodial services, \$18 million for dietary and food services, \$3 million for data conversion services, \$3 million for landscape and grounds maintenance, and \$6 million for security guard services.

Overall Savings from Contracting

Hard savings - amounts removed or reduced in the County budget as a result of contracting - result only from Proposition A contracting. Savings resulting from mandatory and sundry services contracting represent cost avoidance - amounts the County would have spent in excess of the contract awards, had the County chosen in-house production. The County accounts for and reports hard savings and some cost avoidance from Proposition A contracts, but not from the other types of contracts.

Departments may use this difference of reporting to boost their credits for contracting with the Board. In at least one case, a department procured a separate (Proposition A) contract for a technical service instead of using one of the firms with which the CAO has a (sundry services) master agreement. The

CAO's reporting system was one factor in the decision, since the CAO reports savings for Proposition A but not for sundry services.

Based on available research, 9,10 contracting can be expected to result in savings or cost avoidance ranging from 10% to 37% of the in-house cost of the same service.

In the case of mandatory contracts, it is difficult to attribute even cost avoidance to the choice of contracting over in-house production, because the County has no choice. Nonetheless, we assume that savings amount to 10% of the cost of County production of services now covered by mandatory contracts. In the case of sundry service contracting, we can assume an average cost avoidance of 20%, which is consistent with the published research. In the case of Proposition A savings, we use the amounts reported by the County. Table IV contains the estimated amounts saved by the County for each type of contracting.

The task force concludes that contracting is a successful strategy for saving money in the production of County services. However, it is not yet predominantly a County strategy. The major savings, over 80%, are attributable to contracting that is

⁹U. S. Department of Housing and Urban Development, Office of Policy Development and Research, Community Development and Fair Housing Analysis Division, Delivering Municipal Services Efficiently: A Comparison of Municipal and Private Service Delivery, by Barbara J. Stevens (ed.), Washington, D. C.: Government Printing Office, 1984.

¹⁰Kenneth Clarkson, Philip Fixler, et al., The Role of Privatization in Florida's Growth, Tallahassee, FL: Florida Chamber of Commerce Foundation, 1987.

E. S. Savas, Privatizing the Public Sector: How to Shrink Government, Chatham, NJ: Chatham House Publishers, Inc., 1982.

mandated by the State or Federal governments or to contracting when the County is unable to produce in-house for the traditional reasons permitted under civil service.

In subsequent sections, we turn our attention to the results of contracting where local County decisions are required for its use as an alternative method of producing County services, namely, Proposition A contracting.

TABLE IV
ESTIMATED SAVINGS FROM CONTRACTING

Los Angeles County
1985-86

<u>Type</u>	<u>Awarded</u> (\$ millions)	<u>Savings</u> (\$ millions)
Mandatory	732	93
Sundry	63	16
Proposition A	<u>47</u>	<u>24</u>
TOTAL	842	133

Source: For the Awards column, CAO's Report on Board-Awarded Contracts, July 31, 1986. For the Savings column, see the text and Appendix A. Savings include net revenue.

Results of Proposition A Contracting

Following passage of Proposition A in 1978, the Board of Supervisors set a high priority on its use to improve the County's financial performance. The Board adopted an ordinance governing the decisions to contract under the new authority (Sections 2.104.250 through 2.104.420 of the County Code). In 1979 the Board established a Contract Services Advisory Committee to assist departments in identifying work to be contracted, and it required each department to file an annual

contracting plan. The CAO, the Auditor-Controller, and County Counsel designated staff or special units to monitor and control the decision-making process. Three Grand Juries and the Commission on California State Government Organization and Economy (The "Little Hoover Commission") have published extensive reports and recommendations on the subject. A summary of their recommendations is contained in Appendix B.

Our task force has reviewed the results of current policy regarding Proposition A in terms of five central questions:

has Los Angeles County taken full advantage of the opportunities for contracting particular functions and services which are now produced in-house?

have County officials designed procurement efforts to maximize the advantages of contracting as an alternative method of producing services?

has the Board of Supervisors succeeded in sustaining a high priority on contracting as an alternative?

has the Board of Supervisors achieved a balance between the goals of containing costs through contracting, and reducing adverse employee impact?

has the Board of Supervisors optimized management policy and priority for all types of contracting?

Functions Contracted. There is strong evidence that Los Angeles County contracts for a larger variety of services than do other counties nationwide. In 1983, the International City Management Association (ICMA) conducted a survey on contracting of services (see Appendix J). The ICMA study included all counties with a population of 25,000 or more. Three hundred and forty-seven counties returned the survey.¹¹

¹¹International City Management Association, "Survey of Alternative Public Service Delivery," Urban Data Service Report 14 (October 1983).

ICMA asked whether a service program (e.g., residential waste, street repair) was partially or fully contracted (see Appendix J for a list of services). Los Angeles County's contracts are specified primarily by function or task (e.g., custodial services, dietary food services) rather than by entire service program. Although the contracting reported in the ICMA study is not directly comparable to Los Angeles County's, it is evident from the study that Los Angeles County may issue more contracts, but not for functions in the same sense as other county governments. For example, Los Angeles County may contract for custodial services in three buildings - but not for the entire service of custodial work in County buildings throughout the County.

Table V, below,¹² contains the amounts awarded and the savings by task contracted, aggregated over all years and all County departments since 1979. The data demonstrate that the County has used Proposition A contracting primarily to substitute for low-pay, low level internal service jobs rather than for County mission functions. Eighty-four percent of the positions reduced by such contracting have been in custodial, food service, security, data conversion, groundskeeping, and laundry jobs. County pay levels for these jobs, including first-level supervision, range from \$1,215 to \$1,789 per month.¹³ The position reduction amounts to 3.6% of the County's total.

¹²The data for fiscal year 1986-87 in this and subsequent tables are subject to updating to reflect the results for the full year.

¹³In one case, in which the contractor absorbed an entire function and hired most of the employees, pay for affected managers ranged as high as \$32,000 per year.

On the other hand, the County produces numerous services in house which have been successfully contracted elsewhere (see Appendix K for a partial list). For example, some counties contract for correctional facilities management. Based on the available research, we estimate that savings from all forms of contracting could amount to \$400 million (see Appendix A for our computation)

TABLE V

CUMULATIVE DOLLAR AMOUNTS AND POSITIONS ELIMINATED
BY SERVICE CONTRACTED

Los Angeles County
Proposition A Contracts
January, 1979 - March, 1987

Jobs Contracted	<u>Awarded</u> (\$000)	<u>Savings</u> (\$000)	<u>Posi- tions</u>
Custodial Services	22,873	20,953	613.3
Food Service	61,800	10,344	616.5
Data Conversion	11,833	8,975	343.0
Security Guards	18,431	8,223	303.8
Laundry Services	14,458	3,107	142.0
Grounds Maintenance	10,787	9,069	262.4
All Others	<u>41,770</u>	<u>25,309</u>	<u>428.0</u>
TOTAL	<u>181,952</u>	<u>85,980</u>	<u>2709.0</u>

Source: CAO data base of Proposition A contracts.

The task force concludes that Los Angeles County has not taken full advantage of contracting opportunities.

Design of Procurement Efforts. The County designs procurement efforts under Proposition A as substitutions for small amounts of direct labor. Sometimes direct supervisory labor is included. Managerial labor is not.

Most contracts are too small to lead to reduction of managerial positions or of such administrative support as payroll, personnel, procurement and accounting. For example, the County began contracting for custodial services in fiscal year 1981-82. Each of the contracts is small, relative to the size of the entire resource the County commits to custodial services. The average current award is \$270,400, affecting 16.7 positions. The largest single amount awarded by the County for custodial services contracting was \$1.6 million. The smallest single contract was for \$19,449. The maximum number of positions deleted due to a contract was 125.0. The minimum was 1.7. See Appendix E for a case study of custodial contracting.

Table VI below records the size of the various Proposition A contracts in terms of the number of budgeted County positions eliminated by the contract and in terms of the amounts awarded. seventy-five percent of all Proposition A contracts which deleted positions deleted 15 or fewer. Seventy-five percent of the dollar amounts awarded were \$200,000 or less.

Departments almost uniformly contract for a portion of an organizational unit. This portion may be the majority of employees in the unit. A portion of the unit's work and of its workers is retained. We have been told of no instance in which the management of a division within a department has been reduced because of a contract. On the contrary, several of those we interviewed have stated that management is retained to monitor the contract. Supervisory staff are also retained. Excess supervisors remain assigned to the unit manager and monitor the contract, although the department may have a

contract administration unit with its own contract monitors. The retention of supervisors and managers is accompanied by that of supporting staff such as secretary and staff assistant. Typically, there are no deletions in central administrative and support functions such as budget, personnel, payroll, accounting, procurement and warehousing. Contract administration staff may even increase. According to several contractors, the County has assigned employees replaced by their contracts to monitor the contracts - an uneasy arrangement at best, and at worst a method of ensuring non-performance.

We reviewed savings calculations in detail for eight contracts. Among the eight, three accounted for elimination of some first-level supervisory positions. In none of the eight was division, bureau, departmental management or other administrative support reduced.

TABLE VI

SIZE OF PROPOSITION A CONTRACTS

Los Angeles County Position Reduction
January, 1979 - March, 1987

<u>Position Reduction</u>	<u>Number of Awards</u>	<u>% of Total Awards</u>
1 - 5	94	46.7
6 - 10	39	19.4
11 - 15	19	9.5
16 - 20	10	5.0
21 - 25	7	3.5
26 - 30	7	3.5
31 - 40	4	2.0
41 - 50	9	4.4
More than 50	<u>12</u>	<u>6.0</u>
TOTAL	201	100.0

TABLE VI (Continued)

SIZE OF PROPOSITION A CONTRACTS

Amounts Awarded

January, 1979 - March, 1987

<u>Size of Award</u> (\$000)	<u>Number of Awards</u>	<u>% of Total Awards</u>
100 or less	368	56.5
101 - 200	122	18.7
201 - 300	46	7.1
301 - 400	19	2.9
401 - 500	13	2.0
501 - 600	13	2.0
601 - 700	10	1.5
701 - 1,000	8	1.2
1,001 - 1,300	13	2.0
1,301 - 1,600	14	2.1
1,601 - 1,900	8	1.2
1,901 - 3,000	13	2.0
More than 3,000	<u>4</u>	<u>0.6</u>
TOTAL	651	99.8

Source: CAO data base on Proposition A contracts.

For example, in the recent contract for parking lot operations, the Department of Facilities Management deleted ninety parking attendant positions, but not one supervisory or other overhead position.

On the other hand, three proposed contracts which have not yet been awarded -- airport management and operation, workers' compensation claims administration, and County-wide printing services -- are designed to eliminate some or all of the supervisory, management and secretarial overheads in the affected divisions.

In addition to contracting for small amounts of work, the County typically specifies in some detail the resources to be committed and/or the work to be performed by the contractor, in lieu of defining the results to be obtained and thus permitting

the contractor to be innovative. This was clear in our review of a sample of 22 contracts. Seven contracts specified the number of workers; seven specified hours to be worked; twenty one specified in varying degrees of detail the tasks to be performed. In contrast, only nine specified output measures, and four provided an improvement in the application of technology. Further detail is contained in Appendix C. One effect is that contractors do not increase the productivity of labor. On the contrary, we found that contractors employed 6% more staff overall than the County had on those contracts for which the County kept a record.

We do not mean to imply that contractors never use superior technology, or that the County's procurement methods never permit it. Indeed, we know of four of the 800 Proposition A contracts where improved technology was accomplished. They are the closed case storage contract with DPSS, transcribing contracts with Probation, some golf course management, and off-site laundry contracts. There may be others.

The task force concludes that the County's procurement efforts under Proposition A have not been designed to maximize the advantages of contracting. Contracts are small, do not reduce overhead, and seldom permit innovation which would improve technology or increase productivity. Sustained Priority. After peaking in 1982-83, the County's Proposition A contracting effort has slowed significantly. Eighty-two percent of new contracts (excluding renewals and replacements) were awarded in 1984-85 or earlier. Similarly,

eighty-two percent of the positions eliminated and savings generated by new Proposition A contracting originated before June, 1985. Eighty-one percent of the positions eliminated by all forms of Proposition A contracting, including renewal and replacement contracts, originated in 1984-85 or earlier.

TABLE VII

LEVEL OF PROPOSITION A CONTRACTING

Award of New Proposition A Contracts

<u>Fiscal Year</u>	<u>Positions Deleted</u>	<u>Contract Amounts</u> (\$000)	<u>Contract Savings</u> (\$000)	<u>No. of Contracts</u>
79/80	13.4	214	105	5
80/81	214.4	4,017	918	31
81/82	424.5	8,161	3,846	64
82/83	633.9	10,304	4,948	30
83/84	433.4	8,539	3,723	22
84/85	268.0	6,932	3,122	16
85/86	248.9	4,762	2,118	34
86/87	<u>144.3</u>	<u>2,799</u>	<u>1,477</u>	<u>4</u>
TOTAL	2380.8	45,732	20,256	206

All Active Contracts

<u>Fiscal Year</u>	<u>Positions Deleted</u>	<u>Contract Amounts</u> (\$000)	<u>Contract Savings</u> (\$000)	<u>No. of Contracts</u>
79/80	13.4	214	105	5
80/81	214.4	4,246	1,042	35
81/82	513.5	15,641	6,980	97
82/83	656.7	27,430	11,848	110
83/84	448.4	31,482	14,409	97
84/85	343.8	41,237	19,280	104
85/86	304.2	33,652	17,115	137
86/87	<u>214.8</u>	<u>28,028</u>	<u>15,797</u>	<u>85</u>
TOTAL	2,709.2	181,933	86,578	670

Source: CAO database of Proposition A contracts

The task force concludes that the Board of Supervisors has not succeeded in sustaining a high priority on contracting. The County produces a higher proportion of its work in-house now than before 1978. The annual \$24 million savings attributable to Proposition A contracting amounts to less than one percent of the County's payroll. The contracting effort has tapered off.

Employee Impact. The actual number of permanent employees who have been impacted is quite small. Thirty-five of 1,320 displaced employees (3%) were actually laid off between July 1982 and December 1986. Of the 35, 26 (74%) were rehired. Table VIII provides additional information on the distribution of the impact on County employees. Due to the fact that the services which have been contracted to date have involved low level auxiliary positions such as custodial, food, and laundry workers, it is not unreasonable to expect that the impact, had there been any, would have been felt mostly by minorities. Eighty-seven percent of the affected employees have been members of an ethnic minority group. Forty percent were women. Since 50% of the County's work force are members of ethnic minorities, County personnel specialists believe that any contracting of services currently performed by employees will have a major impact on positions held by minorities or women. This will be particularly true in the event of demotion or layoff, because of the civil service seniority rules.

Out of the 1,320 affected employees, 1,061 (80%) continued employment with the County. Of these, 32 (2%) were demoted, 224 (21%) were promoted, and 805 (76%) were transferred to equivalent positions. The contractors hired 128 (10%) of the

TABLE VIII
COUNTY OF LOS ANGELES
RETRAINING/REFFERAL PROGRAM

Data from July, 1982 to December 31, 1986

	<u>White</u>	<u>Black</u>	<u>Hispanic</u>	<u>Am. Ind.</u>	<u>Asian</u>	<u>Filip.</u>	<u>Women</u>	<u>Total</u>
No. of Employees affected by contracting	174	791	293	02	46	14	529	1320
No. of Employees placed in County	146	666	209	01	30	09	408	1061
Employees Promoted	16	163	40	-	03	02	112	224
Employees Reassigned (laterally)	122	486	162	01	27	07	227	805
Voluntarily Reduced	06	15	05	-	-	-	19	26
Reduced In Lieu of Layoff	02	02	02	-	-	-	-	06
No. of Employees who have left County Service: e.g., resigned, retired, terminated	12	62	16	01	04	01	29	96
No. of Employees Laid Off	01	17	17	-	-	-	07	35
Rehired (lateral)	-	10	06	-	-	-	04	18
Rehired (demotion)	-	04	04	-	-	-	-	08
No of Employees Remaining	-	-	-	-	-	-	-	-

Source CAO

impacted employees. The data refer to permanent employees only. County officials do not track the impact on temporary County employees. Temporary employees are warned at the time of job offer that the position is temporary. The County has kept no statistics on their termination due to contracting.

In 1982, the Board passed a motion directing the County to set aside 5% of the net savings from contracting for retraining affected permanent employees. To date the County has reported \$210,088 (5.5%) of the potential available funds of \$3.9 million as training costs for the period between 1982 and September, 1986. Of the \$210,088 spent, \$207,674 has been charged to the appropriation. The unspent savings of over \$3.6 million have not been carried over in the retraining appropriation from year to year. Table IX contains appropriated amounts, and Table X contains the funds which would be available had the County implemented the 5% policy.

Retraining services have been provided for 425 permanent County employees between 1982 and September 1986. Services were provided by the Human Resources Branch of the CAO (here DOP, for Department of Personnel), Los Angeles Unified School District (LAUSD), Los Angeles City College (LACC), Rio Hondo Police Academy (RHPA), Southwest Regional Training Center (SWRTC), East Los Angeles City College (ELACC), Andrews Adult School (AAS) and Los Angeles Harbor College (LAHC). Table XI outlines where the training funds have been spent. Table XII indicates where testing services have been purchased.

Clerical and secretarial training were provided the most frequently, for 172 employees and 31 employees respectively. Other positions for which employees received training included library assistant, auto body repairer, intermediate clerk, warehouse worker, central services technician, and nursing assistant.

TABLE IX

ACTUAL RETRAINING FUND

FISCAL YEAR	APPROPRIATED	EXPENDED	UNEXPENDED	CUMULATIVE UNEXPECTED
1982-83	\$ 500,000	\$ 45,393	\$ 454,607	\$ 454,607
1983-84	578,000	95,000	483,000	937,607
1984-85	578,000	30,935	547,065	1484,672
1985-86	578,000	36,346	541,654	2,026,326
TOTAL	\$2,234,000	\$207,674	\$2,026,326	\$2,026,326

Sources: County budgets, 1982-83 through 1986-87

TABLE X

POTENTIAL RETRAINING FUND

	ANNUALIZED SAVINGS	%5 RESERVE FOR TRAINING	EXPENIDITURE FOR TRAINIIG	REMAINDER
1982-83	\$ 14,000,000	\$ 700,000	\$ 45,393	\$ 654,607
1983-84	16,000,000	800,000	95,000	705,000
1984-85	23,000,000	1,150,000	30,935	1,119,065
1985-86	24,000,000	1,200,000	36,346	1,163,654
TOTAL	\$ 77,000,000	\$3,850,000	\$207,674	\$3,642,326

Sources: Annualized savings are from CAO reports; expenditures are from County budgets.

Additional on the job training opportunities were made available. One hundred and thirty-two employees were assigned to the Career Development Program administered by the DOP. This program gives the participants special job enrichment opportunities to help them qualify for promotions. Other in-house training opportunities were made available, especially for laundry and food service workers impacted at the hospitals.

The task force concludes that employee impact has been minimal. Little impact will occur unless services are contracted on a larger scale. Retraining efforts have been adequate to date. The potential for expanding training and referral efforts for County employees impacted by contracting is strong. The funds and assistance are available.

TABLE XI
EXPENDITURES FOR TRAINING OF
DISPLACED EMPLOYEES

Training Source	Cost	Absorbed	Expended
AAS	\$49	\$0	\$49
DOP	12,000	-12,000	0
ELAC	412	0	412
LACC	25,882	-21,314	4,568
LAHC	14,518	-14,518	0
LAUSD	170,544	-89,200	81,344
Pub. Lib.	52,780	0	52,780
RHPA	9,856	0	9,856
SWTC	1,800	0	1,800
(Coverage for trainees)	<u>50,000</u>	<u>0</u>	<u>50,000</u>
TOTAL	\$337,841	-\$137,032	\$200,809

Source: CAO data table, "From 1982, Retraining / Referral Expenditures," dated 9/30/86.

TABLE XII

EXPENDITURES FOR TESTING OF
DISPLACED EMPLOYEES

Testing Source	Cost	Absorbed	Extended
DOP	\$3,840	-\$3,840	\$0
LAUSD	<u>17,521</u>	<u>-8,242</u>	<u>9,279</u>
TOTAL	\$21,361	-\$12,082	\$9,279

Source: CAO data table, "From 1982, Retraining/Referral Expenditures", dated 9/30/86.

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IV. CURRENT POLICY AND SYSTEMS

In this section, the task force describes the current County system for addressing these issues for all types of contracting. First we review the historical background. Second, we describe the current policy framework and discuss structure for all contracting. Finally, we describe the current specific policies governing Proposition A contracting.

BACKGROUND

Government contracting is not new. It was recognized early that the finance and policy control of a governmental service can be separated organizationally from its production. For example, city governments contract with counties for production of city services. All governments contract with private companies for the production of services that they cannot reasonably produce themselves. In such instances as facilities construction, statutes require local government to contract with private companies. Thus, Los Angeles County has been contracting for services since its creation in 1850.

However, much is new in the relationship of the private sector to local government in general, and in the use of contracting by Los Angeles County. The primary new development is that governments have recognized that private companies can feasibly produce many of the services formerly believed to be exclusively governmental in character.

For example, such new cities as Scottsdale, Arizona, have always contracted with a private firm for fire protection services. Since its creation in 1972, the City of Rancho Palos Verdes has contracted with private companies for all of its public works and engineering functions.

However, in California, a number of court decisions prevented extensive use of contracting for County functions and services already provided in-house by civil service employees. When attempts by local governments to contract were challenged by employee organizations, the courts held that civil service provisions of the State Constitution and County Charters prohibited contracting out to private firms or persons. The basic rule established by the State Supreme Court in these decisions was to permit service agreements when the work could not be "adequately or competently or satisfactorily performed by civil service personnel." (Borum vs. State Comp. Ins. Fund, 30 Cal, 2nd 575, 582 [184 P. 2d 505]).

In numerous subsequent opinions, the Los Angeles County Counsel consistently advised the Board of Supervisors that the following tests could be used to validate decisions to contract for personal services in cases where contracting was not statutorily mandated:

No civil service employee would presently qualify to perform the work and it would be impossible to recruit such personnel in time to do the work.

The contract would be for services of an extraordinary or professional nature and the service is of temporary nature or needed on a part-time or intermittent basis.

The contract would be for personal services to perform an independent analysis, evaluation, review and/or audit.

That is, County managers were permitted to contract for personal services only when they could prove that service provision was not feasible with civil service employees. Contracts permitted under these rules are referred to as "sundry" service contracts.

The courts, County Counsel and other arbiters of public policy added refinements and special-case determinants as new issues arose. For example, the courts found contracting for Medi-Cal administration to be legal under civil service because it was a new, rather than an existing, service. County Counsel held that statutorily permitted contracting for outside attorney representation in certificate of need hearings must meet the civil service tests, while statutorily required contracting for social services need not.

Regardless of the various exceptions, until 1978 the dominant factor in decisions on contracting was the rules established by the courts to protect the integrity of the civil service system. In cases of statutorily mandated contracts the civil service tests were not applied. In all other cases they were, except for new services. Similarly, funding agencies of the State and Federal governments frequently required the County to use a "merit system" of employment on programs they funded, which by extension prohibited contracting.

These policies, as stated and applied, had several effects on the County's overall operation:

The cost or cost effectiveness of a service could never be the determining consideration on which a contracting decision was based. The economics of "make or buy" could not be the issue. The integrity of the civil service system was the issue.

Every decision to contract had to be reviewed for its legality in terms of its impact on the civil service system, on a case by case basis.

No systems were necessary to support contracting decision-making. The decisions were not managerial. They were legal and quasipolitical. The determination of whether to contract for a service depended solely on whether or not it could be proven that the contract did not take work away from the County's present civil service employment system.

Consequently, the County passed through its major growth periods of the 1960's and 1970's with no need for any "make-buy" decision-making or policy machinery. Such machinery would have been superfluous. Managers had little need to make such decisions because they were made for them by counsel, by the courts, or by the Legislature.

Therefore, the internal culture of the County's management systems did not incorporate

policy establishing criteria for deciding when contracting is better than in-house production,

policy controlling the use and monitoring of contracting,

incentives for using contracting to economize,

methods for minimizing adverse employee impact when contracting.

In 1978, the Board of Supervisors proposed and the electorate adopted a County Charter Amendment which changed the underlying legal principles and thus superceded the court decisions. The amended Charter states:

"Sec. 44.7. Nothing in this article shall prevent the County, when the Board of Supervisors finds that work can more economically or feasibly be performed by independent contractors, from entering into contracts for the performance of such work. The Board of Supervisors shall adopt an ordinance specifying criteria for entering into contracts, and specifying competitive bidding procedures for the award of such contracts."

This permitted the County to contract with private firms for services it currently produces or could produce in house. It may contract even when it has established, funded and staffed an internal organization to perform the work. That is, in order to contract for personal services, a manager need no longer prove that the service is required by law to be contracted, or cannot be performed by civil service employees. The manager may instead advocate contracting for a service when it would be "more economic or feasible" to do so, provided only that the procurement follows established rules of competitive bidding. Since 1978, managers have therefore been permitted to use economic criteria in making contracting decisions. Therefore, policy machinery was needed to determine what to contract, under what conditions, how to create incentives for sound decisions, and how to control the impact on employees whose jobs would be affected. The Board of Supervisors established various policies governing contracting and has codified them in an ordinance.

In cases of statutorily mandated contracts the civil service tests were not applied. In all other cases they were, except for new services. Funding agencies of the State and Federal governments also influenced decisions.

CURRENT DECISION POLICY

The current policy framework controlling contracting decisions varies by type of contract -- mandatory, sundry or Proposition A. In the following sections we describe the decision-making framework for each of these separately.

Mandatory Contracting

In the case of mandatory contracting, local policy makers have little control over the nature, delivery system or pricing of the services. The eligible types of contracting firms are frequently specified in law, as are the services themselves. The mandatory group encompasses a variety of regulatory schemes, depending on whether the contracts are for construction, social services, or customarily contracted functions.

Mandatory contracts are usually designed at the macroservice level. That is, the entire service, such as transportation for the elderly, is contracted instead of a specific function related to transportation of the elderly such as dispatching of vehicles.

Construction. In the case of construction and maintenance of County buildings and yards, when the job estimate exceeds \$10,000, the County must contract with a licensed construction contractor to do the work. The contractor must certify that he

pays prevailing wages as determined by the State Director of Industrial Relations. The process must include competitive sealed bidding if the price exceeds \$75,000. The contracts usually contain some form of economic damages clause and flexible termination rights. Formal audits are infrequent except as part of overall operational audits of the County agency which actually contracts. In summary, what characterizes these services is;

the County has no choice of whether or not to contract;

the County must use open competition taking advantage of the free market in construction;

the County must award the contract to the lowest responsible fixed-price bidder if the cost exceeds \$75,000;

wages are fixed and vendors must qualify;

little formal auditing is necessary;

incentives are irrelevant because of the mandate;

employee impact is irrelevant because the contracts will not substitute for current employees.

Social Services. In the case of contracting for such social services as community mental health, substance abuse treatment, and community development, the County must contract with a qualified community-based vendor, usually organized as a non-profit corporation and targeted for a specialized service need or for a specific geographic area. The required vendor qualifications vary according to service. They usually include some form of State certification, either medical, a

practitioner's license, or an academic degree. The measure of units of service is often specified by the funding organization. These may include, for example, hours spent in client contact, medication or therapy administered, number of clients served, and so forth. The amounts are computed as negotiated cost plus fee, and the services are funded on a fee for service basis. Frequently, clients are assigned to contractors based on the County's determination of the client's needs, specialization of service, or territory. Results and financial accountability are assured by audits conducted either by the funding agency or by external independent auditors as well as by the County Auditor.

What characterizes these services, then, is:

the County has no choice of whether to contract;

the service is specified as are some qualifications of providers;

the prices are fixed for units of service;

several levels of government perform monitoring and evaluation.

Customary. The County customarily contracts for major construction and repair work on the physical infrastructure of the area, such as roads. The County regulates these by ordinance. In other cases which we have termed mandatory because in-house production would be impractical, such as public restaurant concessions and leasing of equipment or property, the County uses no overall regulatory scheme. The goal is to maximize County revenue and minimize costs by delegating

property management in certain areas to private vendors. What characterizes such services is:

the County has no choice of whether or not to contract because it has no in-house capability to produce the service;

the County can choose among flexible options of scale, among providers, and so forth;

pricing, revenue and financial arrangements are fully negotiable.

Sundry Services Contracting

In the case of sundry services, local policy makers control the nature, delivery system and pricing of the services to be contracted. The County can decide whether or not to contract by applying the civil service tests described previously. It can choose the group of competitors from which to solicit bids or proposals, and it can specify the services, levels of service, quality and expected costs in advance. The contracts are usually of the firm fixed price type, including occasionally fixed unit prices. However, statutes require that the County award the contract to the lowest qualified bidder and that the bidding process follow specific guidelines. Thus, what characterizes the regulatory framework for sundry services contracting is that:

the County can choose whether to contract, within court-specified tests of civil service provisions;

the County specifies the nature of the service, the terms and conditions, and the cost;

the County must select from among the qualified free market vendors for the service specified;

the County must award the contract to the lowest responsible bidder;

incentives are irrelevant because the service can be proven unfeasible within the civil service system;

employee impact is irrelevant because no employees will be affected.

Sundry service contracts are usually at the microservice level. That is, a specific function is contracted such as temporary secretarial service for peak workloads, instead of the entire secretarial services for a department or the County.

Proposition A Contracting

In the case of Proposition A contracting, the Board of Supervisors controls the entire regulatory framework. Local policy makers can decide the nature and scope of the service to be contracted, the eligible types and qualifications of vendors, the methods of pricing, the costs, the types of contracting, the delivery system and the management or evaluation to be required. The Charter provision which authorizes such contracting specifies only that the Board of Supervisors must find contracting for the service to be "more economic or feasible" than in-house production by civil service employees and that the Board must adopt an ordinance providing for competitive bidding.

However, in the current system the Board has adopted an ordinance which provides procedural safeguards that may be interpreted as narrowing the scope of its decisions to contract using the Proposition A authority. It excludes services which do not qualify to meet the following tests (Section 2.104.380):

the County's ability to respond to emergencies must not be impaired;

the award of the contract must not "infringe upon the proper role of the County in its relationship to its citizens".

The ordinance makes no provision for contracting on a cost-plus basis. It contains numerous procedural safeguards, including some requiring departments to certify that the contract will result in hard dollar savings and that they have provided for the impact on employees.

Therefore, what characterizes " Proposition A" contracting in the current system is that:

the County can choose whether to contract;

the Board of Supervisors has limited its choice of the nature of services to be contracted by establishing procedural tests;

the County specifies the nature of the service, the terms and conditions, and the cost;

the services must be available in the decentralized free market and must be generally amenable to competitive bidding;

the County must select from among the qualified free market vendors for the service specified;

the County must award the contract to the lowest responsible and responsive fixed-price bidder;

incentives are highly relevant because the decision of whether or not to contract is solely attributable to an individual County official;

employee impact is highly relevant because contracting is limited to those cases where the service is presently or could be performed by County personnel.

Proposition A contracting has been at various service levels. Entire services, such as dietetic and food service in specific hospitals, have been contracted. More frequently only microservice level contracting occurs where only a part of a function is contracted, such as data conversion instead of the entire data processing service at a specific department. Only recently have there been proposals to contract out entire County-wide services. The fleet maintenance, printing, and workers' compensation proposals under consideration are examples of this.

In summary, the current policy framework governing decisions to contract depends on the authority under which the County makes the decision to contract. The County manages contracting decisions within five distinct regulatory systems. They are:

- mandatory, including
 - construction,
 - social service, and
 - other (e.g. concessions);

- sundry services (with the civil service test);
- Proposition A (more economic or feasible).

Their basic characteristics are summarized in Table XIII below. In the table, "contracting method" refers to the requirements for competitive bidding - that is, how open the competition must be. *Award* refers to the rules determining which bidders can be chosen - i.e., any qualified, lowest responsible, etc.

TABLE XIII

CHARACTERISTICS OF THREE MAJOR TYPES OF CONTRACTING
FOR PERSONAL SERVICES

Los Angeles County
1987

	<u>Mandatory</u>	<u>Sundry</u>	Proposition A	
			<u>Charter</u>	<u>Ordinance</u>
<u>Choice of:</u>				
Nature of Service	None	Court Tests	Full	Limited
Delivery System	Limited	Full	Full	Full
Vendor Qualifications/ Organization	None	Full	Full	Full
Contracting Method	None	None	Full	Some
Award	None	None	Some	Some
 <u>Relevance of:</u>				
Service Selection Criteria	None	Low	High	High
Incentives	None	Low	High	High
Employee Impact	None	None	High	High
Prevailing wages	High	Some	None	None
Price	Some ¹⁴	High	High	High
Savings/Cost Avoidance	None	Some	High	High

¹⁴High for construction and concessions, low for justice and social services.

Structure and Process

County managers must comply with three distinct contracting processes, each with variations. Appendix D contains a detailed chart. The three types of contracting and their major process differences are:

- Proposition A, which requires competitive bidding and a finding that the contractor(s) can do the work more economically or feasibly than County employees;
- sundry, which requires competitive bidding only if it exceeds a statutorily-defined amount and requires a finding that the work cannot be performed by County employees;
- mandatory, which also requires competitive bidding only if it exceeds certain statutorily-defined amounts but requires neither of the above findings.

Most of the operating departments have a contract administration unit or specialist. A departmental manager is designated as the contracts manager. With the leadership of the CAO, these managers formed a contract managers' network. The network meets periodically to exchange information and to make suggestions concerning the contract process. The contract managers rarely participate in proposing or deciding what to contract. Their focus is on administering the Proposition A process.

All three processes for contracts adopted by the Board of Supervisors require the proposing department to obtain approval from the CAO and County Counsel. Risk Management (CAO) approves the insurance; Budget (CAO) certifies funding; County Counsel tests findings where applicable and approves contracts as to form.

Proposition A Contracting. In the case of Proposition A, an operating department initially proposes the use of contracting, following a determination that the civil service tests for the sundry services contracting do not apply. The first step is to seek CAO approval to solicit proposals¹⁵ The operating department then consults with the CAO's Office of Human Resources regarding the plan for displaced employees. The CAO notifies the employees' union. The department prepares and documents specifications for proposals or bid. The CAO certifies that employee impact is provided for, budget is available, and risk management requirements are met. County Counsel certifies that the contract is acceptable in form and contains standard County terms and conditions. The Auditor-Controller certifies that the proposed contract can lead to savings by comparing the proposed service levels and costs to equivalent County service levels and costs and estimating avoidable costs based on the design specifications for the contract. The calculation may be done before contracting, or the contract may be a pilot, with the savings calculated later.

The department organizes an evaluation team to review the submitted proposals and to assist in selecting a contractor. If the award is for over \$5 million the department is required to seek the assistance of the Auditor-Controller, County Counsel, Purchasing Agent, and CAO.

¹⁵ County officials are currently studying these processes and will recommend changes.

Contracts often specify under what conditions they can be renewed. Unless the contract specifies that the department may administratively renew, many of the same steps in the original contract award process are required for renewal. The CAO and County Counsel are developing a uniform policy to approach this question.

Sundry Services Contracting. In the case of sundry services, the operating department responsible for the work initiates the request that it be contracted and develops the specifications. The department either prepares an RFP itself or requests the Purchasing Agent to do so. The CAO certifies that employees cannot feasibly be recruited to perform the work.

The department solicits proposals following CAO approval of budgetary and risk management considerations. If the contract amount will exceed \$25,000, competitive bidding is required unless special circumstances justify an alternative, such as competitive or non-competitive negotiation. County Counsel must approve the contract language, and the Board must award the contract. Under \$25,000, the Purchasing Agent may issue a purchase order.

Mandatory Contracting. Construction and related services and consultation contracts are generated only by the departments of Facilities Management (FMD) and Public Works (DPW). If the proposed construction work is for a facility to be used by a County department, it is reviewed by the CAO to determine whether it is consistent with the County's Capital Projects

Plan. County Counsel is consulted on the language of all construction specifications.

For other mandatory contracts, the Purchasing Agent may develop the RFP and contract with input from the department, or the user department prepares the documents itself.

The dollar amount of the award then determines who may approve the solicitation and award the contract. Contracts above \$75,000 for construction or related services and above \$25,000 for other services must be awarded by the Board, and the Board approves their solicitation. Below these dollar limits, these construction-related contracts may be awarded by the proposing department, and other services may be purchased by the Purchasing Agent.

In the case of mandatory social service contracting, the line operating department (e.g., Mental Health, Public Social Services, Children's Services) establishes the necessary link to funding agencies of the State and Federal Governments. Since the statutory specifications and the regulations of the funding agency are usually detailed, the role of the CAO is primarily to validate the sufficiency of the budget and to incorporate the programs in the County budget. In some cases, the Auditor-Controller audits the financial system of the vendor or the control system of the operating department. In most cases, however, the funding agency provides for external audits either by performing site reviews or by requiring a portion of the grant to be allocated to evaluation.

In the case of other mandatory contracting, a central services department is generally in charge. For example, the Data Processing Department manages computer leasing and services, the Department of Facilities Management manages building leases and services and concessions in county buildings, while the Department of Beaches and Harbors manages concessions in beach facilities.

Table XIV below summarizes the structure and major roles of the various departments.

TABLE XIV
SUMMARY OF STRUCTURE AND ROLES

	<u>Mandatory</u>	<u>Sundry</u>	<u>Proposition A</u>
Origination	Operating Dept.	Operating Dept.	Operating Dept. CAO
Specification	Operating Dept.	Operating Dept.	Operating Dept.
Plan Review	CAO External Agency County Counsel	Purchasing Agent CAO County Counsel	CAO Auditor-Controller County Counsel
Finance & Risk Certification	CAO	CAO	CAO
Contract Award	Operating Dept. Board Of Supvs.	Purchasing Agent Board of Supvs.	Board Of Supvs.
Audit	Funding Agency	Auditor-Controller	Auditor-Controller

CONTRACT MONITORING

The Board of Supervisors has no comprehensive County-wide contract monitoring system. Construction contracts are monitored by the department which originated the contract. Human service contracts usually require formal monitoring, specified in, and funded by the grant from the funding source. This is performed by either the Federal or State government agency providing the funding or by an independent source. Occasionally the Auditor-Controller audits such grants.

The operating departments which originate Proposition A and sundry services contracts are responsible for monitoring the results. The intent of the monitoring process is to ensure prompt identification of deficiencies and provision of notification to contractors of substandard performance.

The County's Contract Development Manual (Proposition A) defines *contract monitoring [as] a process of evaluating contractor performance based on measurable service outputs." Each contract includes Performance Requirement Summary Forms which describe the service standards, service deviation allowances, surveillance methods and rating penalties that will be used to control the contractor's performance. Most contracts also provide for economic penalties or damages to be paid to the County in the event of contractor performance deficiencies.

The County department managing the contract must develop a Quality Assurance Surveillance Plan (QASP), which is a comprehensive monitoring plan, prior to contract solicitation. The QASP's evaluate the services or products to be provided.

During the term of the contract, the department collects and analyzes data to compare the contractor's operations against performance indicators (measurable outputs) and performance standards (measures of comparison which reflect acceptable or adequate levels of efficiency and/or effectiveness).

The manual also instructs departments to assign an employee to be responsible for formally monitoring each contract. This individual's responsibilities include: routine collection of source data, authentication of it with appropriate departmental signatures, provisions of regular feedback performance to the contractor and the user department, and regular written evaluations.

CURRENT INCENTIVE POLICY

In recent years, the Board of Supervisors has established a variety of incentive programs to improve the financial rewards to managers for introducing productivity improvements or reducing costs. As we noted previously, incentives are irrelevant for mandatory and sundry service contracts. However, contracting for services with private firms using the authority of Proposition A is relevant and is a high priority for the Board. In this section, we describe the Merit Bonus Plan, the Performance Pay Plan, and the Suggestion Award Programs.

Merit Bonus Plan. In 1983, the Board of Supervisors adopted a bonus system for managers (County Code Section 6.10.075). It requires that the Auditor-Controller review and the CAO concur with reported cost savings from contracting and from internal

productivity improvements. The department head and the CAO are to recommend, and the Board is to determine, the portions of savings to be allocated to the department head's bonus, to bonuses for subordinate managers, and to funding of the department's operations. There is no requirement that 100* of the savings be so allocated. No bonuses have been awarded on the basis of this plan.

Performance Pay Plan. The recently adopted performance based pay system for management compensation (County Code Sections 6.08.300 et et seq .) links compensation of County managers directly to the accomplishment of goals documented in a performance agreement developed at the start of each year. Each department head establishes his or her goals jointly with the CAO; they are subject to approval by the Board of Supervisors. Subordinate managers and staff establish their goals jointly with their superiors.

Each year the CAO will recommend and the Board will determine each department head's salary increase and a merit salary adjustment budget for the remaining participants. The CAO will provide departments with guidelines for awarding increases to participants below the level of department head according to performance ratings and their positions within their salary ranges. Although such factors as the achievement of savings and productivity improvements will influence the amounts appropriated, they are not linked by formula. General labor market conditions and County finances will also be factors.

The Board's priority on contracting has had a significant impact on the kinds of goals agreed to by County officials. Of the 30 Board-appointed department heads who have agreed to performance goals, 23 (77%) include contracting. The goals include 63 specific contracts to be implemented and 20 feasibility studies to be completed. Some contracting goals specify results to be obtained in terms of dollar value of contracting, amount of savings, or number of positions to be eliminated.

Participants in the Performance Pay Plan are eligible for certain bonuses for exceptional contributions or extra responsibilities under the plan. However, they are ineligible to receive merit bonuses on the basis of savings from contracting and productivity improvements. Since all managers will be phased into the Performance Pay Plan, the merit bonus plan will gradually become inapplicable. The County Code no longer requires managerial compensation to be linked to savings, contracting, or productivity improvement. These considerations are included in the goals agreed to in the performance agreement.

Suggestion Award Programs. In addition, the County has adopted, and is implementing, several employee recognition and suggestion award programs (County Code 5.60.010 et seq.). Suggestions which accomplish the reduction, elimination or avoidance of expenditures of public money or which result in measurably improved efficiency in the operation of the functions

of the County are eligible. Department heads are authorized to provide honorary cash awards to entitled employees from the savings realized from implementation of their suggestions. The cash amounts are 15% of the first-year savings under \$20,000, with additional awards for greater savings. The minimum award for a cost savings suggestion is \$100. Special recognition awards of \$10 to \$100 are available for suggestions of an intangible nature.

The County has also a Public Suggestion Award Program (County Code Sections 5.60.270 ff.). Members of the public whose suggestions create savings may receive cash awards which are proportional to the savings achieved. The maximum award, for savings over \$8,000, is \$470 plus 2% of the excess over \$8,000. Savings of \$100,000 would generate an award of \$2,310. Supplemental awards may be made if a suggestion is used by more than one department. The Code requires the CAO to administer the program. This program is not currently active.

In summary, the Board of Supervisors has adopted several programs to create incentives for contracting and other cost-reduction actions. Table XV summarizes their major features and current status (as of May, 1987).

TABLE XV
INCENTIVE PROGRAMS

<u>PROGRAM</u>	<u>FEATURE</u>	<u>STATUS</u>
Merit Bonuses for managers	Compensation Linked to Savings	Void
Employee Sugges- tion Awards	Awards Linked to Savings	New, Operating
Performance-Based Pay Plan	Compensation Linked to Goal Attainment	New, Operating
Public Awards Program	Awards Linked to Savings	Inoperative

DETERMINATION OF SAVINGS

County ordinances do not require that savings be determined when the County contracts for mandatory or sundry services. However, the County Code (Section 2.104.380) requires that Proposition A contracts be more economical or more feasible (defined procedurally as "cost-effective") than production by civil service employees.

In practice, cost-effectiveness means hard dollar savings. The contracted work should be performed at the same level as it was in-house, or at a higher level, and its cost should be lower than the County's for an equivalent level. Under procedures in force for the last several years, the cost comparison has been performed by the proposing department and has been certified by the Auditor-Controller in advance of awarding the contract. Revised contracting procedures approved by the Board of Supervisors on March 3, 1987, remove the requirement for advance determination of savings and for Auditor-Controller review in cases designated as a pilot by the proposing department. However, the department's savings determination must continue to

follow the Auditor's cost comparison guidelines, which have been in effect since they were promulgated in response to a Board order of May 10, 1983. The Auditor will post-audit departments' compliance with the guidelines. At present, departments are continuing to request pre-solicitation review by the Auditor-Controller.

The guidelines define savings as avoidable cost. This includes the deletion of expenditures which are authorized in the current year's budget or which would have been added by the CAO to the following year's budget. Such expenditures usually consist of employee salaries and benefits. They may also include direct services and supplies and indirect costs such as management and support personnel, if the expenditure is actually avoided and deleted from the budget. They do not include costs such as replacement of equipment, unless currently budgeted, or surrender of space, unless a lease is currently terminated. Long range financial effects such as reductions in County-wide expenditures for personnel administration, space, and scheduled replacement of equipment are included only when they will be deleted from the current budget.

The inclusion of costs to be deleted is discretionary with the proposing department. There is no requirement that overheads such as management, support staff, or space be reduced when budgeted positions are eliminated as a result of contracting.

The Auditor's guidelines permit a department to report, as costs of the contract, payments to the contractor and any incremental costs of contract administration (e.g., contract

monitors who are newly budgeted rather than redeployed employees). Contract administration costs which are not newly budgeted are not considered costs of the contract for comparison purposes. They are also not considered as part of the base avoidable cost.

The savings analysis for subvented departments accounts for the additional factor of revenue changes. Existing Federal policies govern the charging of indirect costs when claiming subventions for subsidized programs. These policies allocate overheads to in-house labor. When labor is contracted by subvented departments but indirect costs are not reduced in some reasonable proportion to labor costs, these policies act to shift overhead to the County's remaining in-house labor. One effect is to reduce the portion of County-wide overhead which is chargeable to the subvented departments. This causes a loss of revenue. A second effect is to shift the overhead within those departments from contracted to in-house functions. Since there are caps on the permissible overhead rates in some programs, the effect may be to cause a further loss of revenue. Thus, when calculating savings for contracting by a subvented department, the County must take into account any such revenue losses. The County as an institution may experience an increase in net County costs, despite a reduction in gross costs.

Because of the technical nature of the accounting guidelines, a number of department heads and other advocates of contracting tend to cite them as the reason why contracting is difficult to implement.

We do not agree. Accountants are reporters. They can report savings only when they are real. The basic issue is the underlying business decision - not the accounting. The business decision to contract for a few positions, rather than for a function, means prima facie that only direct labor can be counted. The business decision to require contractors to use County facilities and equipment means that the costs associated with them will not be reduced. On the other hand, if such costs cannot be avoided because the County cannot terminate a lease or otherwise dispose of the property, their value could be incorporated in the contract pricing as a discount. In no event should prospective vendors be required to use them.

EMPLOYEE IMPACT

Mandatory and sundry services contracting have no impact on current County employees. Contracting under the authority of Proposition A was proposed and adopted by the public to void court decisions prohibiting the use of contracting for services that could be performed by civil service employees.

While it has been the policy of the Board of Supervisors to encourage the use of Proposition A contracting, the Board has also emphasized the need for effective means to reduce the potential adverse impact that contracting could have on the current jobs of County employees.

On January 1, 1983, the Board of Supervisors adopted a policy statement on County employees affected by contracting. It established a goal of ensuring that employees will not lose their livelihood as a result of contracting, and required County management to assist employees by informing them of their

options, by reassigning or rehiring them when possible, and by providing training and referral services.

Thus, the Board's policy is to require hard savings from contracting - that is, positions eliminated from the budget - while at the same time avoiding layoff of individuals employed by the County.

Departments and the CAO must certify that they have minimized the impact by providing for the following options:

- filling in for natural attrition or turnover,
- asking contractors to hire affected employees,
- retraining and reassigning affected employees,
- assisting affected employees in relocating to other jobs.

The County's stated policy is to encourage contractors to offer displaced County employees the "right of first refusal" for job openings which result from the County's contract. That is, contractors are obliged to offer any openings that result from the contract to affected County employees before recruiting elsewhere. However, in the event an employee refuses a contractor's offer, the County policy is to find an internal vacancy for that employee to fill.

In 1981, the Board of Supervisors ordered that 5% of the savings from contracting be set aside for retraining of employees whose jobs would be eliminated as a result of contracting and other causes.

One of the potentially most effective approaches to reducing adverse impact on employees is discouraged by the County ordinance on contracting (Section 2.104.295). It requires a

finding of special circumstance to permit bidding for a contract by County employees who have been involved in developing the contract specifications, i.e., by the leadership of the function being contracted.

Other jurisdictions, notably the City and County of San Francisco and the Federal government, have implemented programs to permit employees to start up their own companies and become contractors for the services they currently provide.

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APPENDIX A

SAVINGS COMPUTATION

Potential Savings	A-1
Current Savings	A-2

APPENDIX A

SAVINGS COMPUTATIONS

In this Appendix, we outline the variety of methods our staff used to estimate potential and current savings from contracting Los Angeles County services.

Potential Savings

Since an accurate forecast of savings would require detailed analysis of each function and program of County government - clearly beyond our scope, we instructed the staff to use a variety of approaches so that we could bracket the results with low and high values.

- I. Assume that the County could save the same percentage of payroll as it saves on current Proposition A contracts. Further assume that no County function is exempt from contracting. At present, the County reports \$24.7 million saved on \$44.2 million in awarded contracts. The percent savings is thus 35.8%.

Since the County payroll is \$2.8 billion, the potential savings at 35.8% from contracting would be \$1 billion.

- II. The percentage, 35.8%, would not be achieved by contracting on a larger scale, including management and entire functions. Thus, assume that the percentage savings reported for Proposition A (i.e., 35.8%) is inflated by the exclusion of unavoidable overhead from the base County cost. Assuming that average unavoidable overhead (excluding fringe benefits) is 80% of direct labor, the percentage savings is more realistically stated as 20% of the total payroll.

Assuming further that no overhead would be reduced, the potential savings from contracting all in-house production is thus \$560 million.

III. Assume that the percentage savings will amount to 20% of total costs, as in II, above. Further assume that the following services are exempt from privatization:

<u>Service</u>	<u>Payroll \$ Million</u>
Legislation & Administration	39.3
Finance	80.6
Counsel	14.9
Elections	17.0
Judicial	281.7
Police	349.6
Fire	52.7
Museums	12.1
Total	847.9

Exemption of these services reduces the contractible payroll from \$2.8 billion to \$2 billion. The potential savings at 20% would be \$400 million.

IV. In recent studies for the State of Florida, the Local Government Center and the Law and Economics Center¹ found savings ranging from 6% to 16% of total expenditures from a variety of alternative service production methods, including contracting. The estimate would yield the same projection of possible savings as our methods: namely, \$300 to \$700 million.

Current Savings

In his report to the Board of Supervisors dated July 31, 1986, the Chief Administrative Officer listed Board awarded contracts of all types: mandatory, sundry services, and Proposition A. The report distinguished between Proposition A and other contracts, but not between sundry services and mandatory contracts. It listed an aggregate amount awarded and amount saved for each department managing Proposition A

¹ Kenneth Clarkson, Philip Fixler, et al., The Role of Privatization in Florida's Growth, Tallahassee, FL: Florida Chamber of Commerce Foundation, 1987.

contracts. It listed the service contracted and the amounts awarded for mandatory and sundry services contracts. In some instances, the report listed net County revenue as either savings or as amount awarded. Our staff used this report to estimate current savings from all forms of contracting. The first step was to classify the listed contracts as "sundry" or "mandatory" based on staff knowledge of the services listed. The results of the classification were:

<u>Contract Type</u>	<u>Amount Awarded</u> (\$000)
Mandatory	
Construction	239,132
Justice / Social Services	397,823
Other Services	8,915
Leasing	<u>85,988</u>
Total	731,858
Sundry	62,662
Proposition A	46,508
Revenue	
Mandatory	11,787
Sundry	<u>484</u>
Total	12,271

The savings computations were as explained in the text. That is, we assumed that mandatory contracts cost ten percent less than what the County would spend producing the same service (i.e., awards are 90% of cost) and that sundry services cost 20% less (i.e., awards are 80% of County cost). Based on those assumptions, mandatory contracts avoid County costs of \$81.3 million and sundry services avoid costs of \$15.7 million. Since the reported revenue is net, the total benefit to the

County of mandatory contracting is thus \$93.1 million (81.3+11.8), and the total benefit of sundry service contracting is \$16.2 million (15.7+0.5).

The CAO reports Proposition A savings from audited figures based on the contracts themselves and the avoidable County cost. In the report, the amounts are \$46.5 million awarded and \$23.5 million saved. The \$23.5 million saved includes \$2.3 million revenue.

Therefore, the estimated amount saved from all types of Board-awarded contracts is

Mandatory	93.1 million
Sundry	16.2 million
Proposition A	23.5 million
Total	132.8 million

As we point out in the text, the amounts saved* by mandatory and sundry services contracting are not amounts reduced in any budget. Rather, they are the amounts the County would spend in excess of the amounts awarded by producing the same service in-house. The County keeps no records that would permit a more precise estimate of the meaning of the revenue figures, so we counted all of it as "savings". Clearly, a precise estimate would be lower or higher depending on whether the County could do as well as the contractors in keeping costs down and revenue up. Excluding all identifiable revenue, the savings and cost avoidance would amount to \$118.2 million.

In addition, some question whether savings are reduced by administrative costs associated with the contracts. The County should seldom incur such costs, because the contracts are substituting for work that would otherwise have been performed internally - that is, administrative costs should be the same in either case. In the rare instances where the County incurs additional administrative costs from contracting, the Auditor-Controller's method of computing savings accounts for them as an unavoidable cost, reducing reported savings.

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APPENDIX B
RECOMMENDATIONS FROM PRIOR STUDIES OF CONTRACTING
IN LOS ANGELES COUNTY

Los Angeles County, Grand Jury (1986-87)	B-1
Los Angeles County, Contract Services Advisory Committee	B-5
Los Angeles County, Grand Jury (1984-85)	B-6
Los Angeles County, Contract Services Advisory Committee	B-8
Commission on California State Government Organization and Economy (Little Hoover Commission)	B-9
Los Angeles County, Grand Jury (1982-83)	B-10
Field Study Team, UCLA, Graduate School of Management	B-12

APPENDIX B

LOS ANGELES COUNTY, GRAND JURY (1986-87)
MANAGEMENT AUDIT OF CONTRACT
MONITORING PRACTICES AND
RESULTS IN LOS ANGELES COUNTY
JUNE 23, 1987

A. Recommendations made to the Chief Administrative office:

1. Establish procedures to periodically evaluate the quality and effectiveness of contract monitoring procedures by departments;
2. Develop a mechanism to disseminate among the departments material that will identify ways to improve contract monitoring efforts and encourage the departments to implement changes that are needed; and
3. Inquire of the departments about the need for training in contract development, monitoring and related areas and, if the demand is sufficient, make such training available as soon as possible.

B. Recommendations made to the Department of Public Social Services Contract Management Division:

4. Monitor the information and Referral contract occasionally to determine data base completeness, timeliness of required follow-up, adequacy of employee training, and client satisfaction;
5. Monitor Homeless Shelter contracts more closely for health inspections, conduct site visits randomly, and ensure that required public notices are posted and distributed, and
6. Request timely receipt insurance certificates.

C. Recommendations made to Facilities Management Department's Contract Services Division:

7. Develop, implement and maintain quality assurance plans for each facility receiving contracted custodial services. The plans should specify:
 - The frequency of random site inspections - this information should not be made available to the contractors,

- Regular, monthly performance review meetings with the contractor,
 - The FDM organizational unit and staff responsible for monitoring,
 - Facility contact persons, and
 - Methods for maintaining adequate records of site visits and deficiency corrections;
8. Require management personnel in CSD to closely supervise compliance with the quality assurance plans (described in Recommendation 7 above) to assure that all facilities are monitored as prescribed and that penalties and corrective actions are applied in a consistent manner for all contractors, and maintain detailed records to document monitoring activities and provide access to contractor performance records for evaluation purposes;
 9. Routinely conduct and document monthly performance review meetings with custodial contractors, as specified by contract;
 10. Resume surveying user department personnel as a quality control technique - identify and routinely poll key contact persons for each facility to provide independent assessment of the quality of contract services; and
 11. Establish procedures within the quality assurance plans (described in Recommendation 7 above) to improve monitoring of contractors' supervision of their custodial personnel and to require contractors to submit supervisors' names and work schedules in order to permit verification by CSD monitoring staff.

D. Recommendations made to the Facilities Management Department's Contract Services Division and the Security Division:

12. Evaluate the need for further increases in field monitoring - if the addition of two new supervisory positions in the Security Division results in corresponding increases in discovered performance deficiencies - and consider such costs when determining the cost effectiveness of existing and future security contracts;
13. Maintain a log of user department complaints and document the results of the investigation of such complaints;

14. Implement formal procedures to prevent the casual and unauthorized alteration of contract performance requirements by user departments without the necessary review and contract modification by the Chief of Security and the Contract Services Division; and
15. Develop a specific plan for correcting inadequate levels of field supervision for one of the security contractors, and address appropriate penalties for failure to meet this plan.

E. Recommendations made to the Department of Health Services:

16. Involve the Contract Monitoring Division more directly in the contract development process by:
 - Increasing Contract Monitoring Division input in the development of the RFP/IFBs, Performance Work Statements, Performance Requirement Summaries, and subsequent monitoring plans by allowing the Contract Monitoring Division to review and comment on proposed contracts and monitoring plans, as specified in existing procedures, and
 - Notifying the Contract Monitoring Division at the beginning of the contract development process to allow the Division to assess potential monitoring requirements on new contracts;
17. Minimize the number of Contract Monitoring Division staff hours devoted to miscellaneous and staff training activities, and use those hours on contract monitoring and contract development; and
18. Request a new classification study of the Contract Monitoring Division¹ 5 staff position.

F. Recommendations made to the Department of Health Service's Contract Monitoring Division:

19. Reduce the number of Contract Monitoring Division staff hours devoted to miscellaneous and staff training activities, and use those hours instead for contract monitoring and contract development activities.

G. Recommendations made to the Department of Health Services and the County's Chief Administrative Office regarding the Los Angeles County/USC Medical Center Physician Services:

20. Immediately begin specification of a budget and staffing plan for increased monitoring of the demonstration physician services agreement and implementation of the RVU system; and
21. Evaluate the possible implementation of an RVU system at other County hospitals to test the system's effect on productivity and revenue at facilities using County-employed physicians.¹

¹* Note: At the time the report was being prepared, the County had been blocked from executing this contract by a Court Order. Consequently, due to the pending litigation, the future of these contractual services remains unclear, and it is uncertain when, or if, the contract will be implemented.

LOS ANGELES COUNTY, CONTRACT SERVICES ADVISORY COMMITTEE
"SUMMARY REPORT"
JULY 11, 1986

1. Increase efforts within the County, with the CAO as the lead, to identify and remove barriers to contracting.
2. Continue to establish specific annual contracting objectives for each department which have been approved by the Board of Supervisors with progress monitored and reported by the CAO.
3. Create monetary and other incentives for managers who effectively manage annual and long range contracting goals and objectives.
4. Request the Economy and Efficiency Committee to monitor results of the County's contracting efforts and report progress.

LOS ANGELES COUNTY, GRAND JURY (1984-85)
REVIEW OF THE LOS ANGELES COUNTY CONTRACTING PROCEDURES
April 30, 1985

II. General Findings and Recommendations

A. Current Contract Development Programs:

Policies and Procedures

1. The CAO should continue to provide policy direction for Proposition A contracting to County departments. This will assist in providing consistency in implementing Proposition A contracting.

2. The CAO should periodically monitor the extent to which County departments follow contract development guidelines set forth by the County Administrative Office. In addition, the CAO should ensure that all departments have established adequate performance standards as part of their quality assurance plan and that incremental costs due to contracting are consistently included in cost savings analysis.

3. Prior to the issuance of the Request for Proposal, County department should formally conduct a thorough operational review of the area identified for contracting. It is critical that this review consist of identifying recommendations for improvement. Additionally, County departments should identify any cost savings which would result from improvement in operations. Once this review is completed, the Request of Proposal should then be issued. The County departments could then be given the opportunity to bid along with outside contractors. Cost proposals from potential contractors should be compared against the County cost, inclusive of any cost savings resulting from operational changes. Currently, there is no County policy which encourages or prohibits County departments from bidding against private bidders

If operational reviews of County services are not conducted prior to making a decision to contract out, the County runs the risk of : 1) not knowing if the County should provide the service in a more effective manner and 2) continuing these same service efficiencies with a contractor.

4. The County should recognize the limits to contracting services. The CAO/Contracts Division should be particularly cautious in pursuing a contract policy that does not have application to all service areas. Additionally, equal emphasis should be given toward management/operational feasibility and the economic benefits of contracting.

5. Potential contracts which are of significant magnitude should be discussed with representatives from the CAO, Controller, and the Personnel Department in the initial stage of

the cost analysis to identify potential problem areas. Departments can then direct their efforts toward collecting thorough and accurate documentation that will expedite the external reviews conducted by the CAO, County-Counsel, and the Internal Audit Division of the Auditor-Controller. If the Request for Proposal process is significantly lengthy, these costs should be documented and included in the costs savings analysis.

6. The County vendor selection process should continue to emphasize the importance of non-cost factors in vendor selection.

LOS ANGELES COUNTY, CONTRACT SERVICES ADVISORY COMMITTEE
UFINDINGS AND RECOPIMENDATIONSW
JANUARY 17, 1984

1. Placement of County Employees with Contractor

An incentive is needed to encourage County employees to transfer to private - sector employment with the contractor providing the service. It is proposed that contractors continue to be required to offer "Right of First Refusal" to County employees and, if circumstances warrant it, the County should ease the transition to private employment by offering employees, for a fixed period of time, a continuation of benefits and/or severance pay that is not less than 75% of current earnings.

2. Employee Training and Placement

The Board of Supervisors approved the use of up to 5 percent of the cost savings from contracting for the training of personnel displaced by contracting and has approved \$578,000 for this purpose for fiscal year 1983-84. The Chief Administrative Officer/Director of Personnel should be required to provide the Board of Supervisors with an annual report that describes the use and adequacy of the budgeted funds and the anticipated benefits.

3. Employee Companies

Amend applicable County ordinances to permit County employees expected to be displaced by contracting to bid on contracts in competition with the private sector with safeguards created to avoid a conflict of interest.

4. Voluntary Resignations

Provide a one - time cash incentive to employees who, as a result of the contracting program. Volunteer to leave County service through either resignation or early retirement. Funds to pay for the cash incentive to be provided from the cost savings of each new program contracted.

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION
AND ECONOMY
"LITTLE HOOVER COMMISSION"
LOS ANGELES COUNTY CONTRACTING OUT: A LETTER REPORT
NOVEMBER 18, 1983

1. Contract provisions should be amended to include measurable standards for assessing contractor performance. These standards should reflect the acceptable minimum service level.
2. The current contracting program in Los Angeles County should be reevaluated in 12 months and 24 months to determine net savings in operating costs and to assess problems. Specifically, the evaluation should:
 - separately identify savings for Proposition A contracts and other contracts;
 - analyze contract renewals to determine how much the cost of contracts increase and why (e.g. inflation, change in services provided, less competition in contracting process);
 - determine how many employees -- part-time as well as full-time -- have been laid off, reassigned, demoted, and placed with private contractors;
 - evaluate the effects on minority public employees;
 - evaluate contractor performance trends;
 - determine the effectiveness of County affirmative action programs to encourage minority contractor's participation in the contracting out program.
3. The current County program for retraining employees should be reviewed to determine sufficiency of funds budgeted, the timeliness of training, and the effectiveness of training content.

LOS ANGELES COUNTY, GRAND JURY (1982-83)
LOS ANGELES COUNTY PROGRAM FOR CONTRACTING OUT OF
SERVICES UNDER PROVISIONS OF PROPOSITION A
APRIL, 1983

SUMMARY OF RECOMMENDATIONS

1. *The Board of Supervisors should formally adopt a comprehensive statement of policies which govern the program for Proposition A contracting. This statement should be formally amended when necessary and kept up to date at all times.
2. *The Chief Administrative Office should exercise substantially more responsibility and be held accountable for the direction and coordination of the contracting program.
3. *The Chief Administrative Office should provide to the various departments up-to-date written procedures for the contracting out process and technical assistance on the various aspects of the program, as needed. (See Recommendations 4 and 8.)
4. The Chief Administrative Office should undertake a comprehensive reappraisal of existing Proposition A procedures to determine whether existing review steps are still necessary and useful.
5. The Chief Administrative Office should establish standards of reasonable time frames for the review and approval of departmental requests to solicit proposals and award contracts. The Chief Administrative Office should monitor the movement of requests through the process in order to identify roadblocks and eliminate unnecessary delays.
6. *The Chief Administrative Office, with assistance from the Auditor-Controller, should issue an updated, comprehensive set of guidelines for conducting cost comparison analyses. (See Recommendation 3.)
7. The Auditor-Controller should be assigned responsibility for central review of all cost comparison analyses to assure that the guidelines are followed consistently by all departments.
8. *Following the reappraisal of existing Proposition A contracting procedures, the Chief Administrative Office should develop a manual which sets forth all current policies, procedures and guidelines, including cost comparison guidelines. The manual should be issued to all department heads and other appropriate County personnel, then periodically updated, as a one-source document on developing Proposition A contracts.

9. The County's publicly reported claims of dollar savings from Proposition A contracting should be corrected and clarified. Among the factors to be considered are that savings data are projections, not actual savings; that not all savings claimed are the result of Proposition A; and that such expenses as monitoring, retraining and feasibility study costs have not always been included in the calculations because of inconsistent cost comparison practices.
10. The Board of Supervisors should establish a program, including possible set-asides, to encourage minority contractors to bid on Proposition A contracts.
11. The Chief Administrative Office should encourage and experiment with various contracting competition models. Such models should aid in monitoring and evaluating contractor performance, challenge the productivity of County employees providing the same services, and guard against contractor dependency.
12. *The Chief Administrative Office, with assistance from the County Counsel, should establish uniform contracting procedures and contractual language for all departments participating in the Proposition A program.
13. The County should enact a lobbyist registration ordinance similar to laws now in force for the City of Los Angeles and the State of California.
14. The Board of Supervisors should ensure that the CAO has their full support in enforcing compliance with conflict of interest regulations in all contracting activities. Vigorous action in this area will help bolster public confidence in the contracting program.

*Recommendations endorsed by the CAO in his Letter to the Board of Supervisors, March 15, 1983.

FIELD STUDY TEAM, UCLA, GRADUATE SCHOOL OF MANAGEMENT
CONTRACTING WITH PRIVATE FIRMS UNDER PROPOSITION A:
SOME ISSUES FOR LOS ANGELES COUNTY."
JUNE 1980

1. Los Angeles County should provide incentive for its managers to be cost effective.

2. Los Angeles County should reduce the existing barriers to contracting out.

3. Los Angeles County should actively experiment with contracting out services.

4. The County should establish a centralized source of training and support in contracting out services.

5. The County should develop a program to improve its working relationships with contractors.

6. The Board should take full advantage of present State laws regarding delegation of authority to reduce delays in contract work.

APPENDIX C

SAMPLE OF 22 CONTRACTS

SAMPLE OF 22 CONTRACTS

Pages C-1, C-2, and C-3

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Citizens' Economy & Efficiency Commission

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APPENDIX D

CONTRACTING DECISION PROCESS

APPENDIX D

CONTRACTING DECISION PROCESS

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APPENDIX E

CASE STUDY - CUSTODIAL WORK

APPENDIX E

CUSTODIAL (JANITORIAL) SERVICES

Los Angeles County operates 750 facilities comprising 4400 buildings with 20 million square feet. In 1986, it budgeted 1289.5 custodians for basic cleaning and maintenance of those facilities which are continuously maintained. The pay rates and number of budgeted positions for various levels of seniority and supervision in the relevant job classifications are displayed in Table E-1.

Table E-1
 Monthly Pay and Budgeted Positions
 Custodial Employees
 Los Angeles County

CLASSIFICATIONS	PAY RATE (\$/MONTH)	NUMBER OF POSITIONS		
		1986	1981	DIFFERENCE
Chief, Hsekgp. & Custod. Svcs.	2,955	0.0	3.0	-3.0
Custod. Services Coordinator	2,523	0.0	1.0	-1.0
Window Washer Supervisor	2,374	0.0	1.0	-1.0
Mgr., Area Custod. Ops.	2,344	5.0	21.0	-16.0
Asst. Custodial Svcs. Coord.	2,147	0.0	3.0	-3.0
Head Custodial Supervisor	2,147	1.0	1.0	0.0
Window Washer Wking. Supv.	2,105	1.0	5.0	-4.0
Lighting Fixture Cleaner Supv.	1,993	1.0	2.0	-1.0
Chief Housekeeper	1,924	1.0	2.0	-1.0
Senior Custodial Supervisor	1,924	54.0	13.0	+41.0
Window Washer	1,886	13.8	32.0	-18.2
Lighting Fixture Cleaner	1,728	2.0	5.0	-3.0
Custodial Supervisor	1,723	88.9	86.5	+2.4
Senior Housekeeper	1,723	1.0	8.0	-7.0
Custodial Working Supervisor	1,544	25.0	222.5	-197.5
Intermediate Housekeeper	1,544	10.0	10.0	0.0
Floor Care Specialist	1,536	31.4	130.0	-98.6
Custodian	1,384	844.8	1,714.4	-869.6
Housekeeper	1,384	36.4	84.3	-47.9
TOTALS		1,116.3	2,344.7	-1,228.4

In addition, the County budgets a variety of institutional workers for specialized care in detention, hospital and rehabilitation facilities. We have listed the job titles, and pay rates and positions budgets in Table E-2.

Table E-2
 Monthly Pay and Budgeted Positions
 Specialized Institutional Workers
 Los Angeles County

CLASSIFICATIONS	PAY RATE (\$/MONTH)	NUMBER OF POSITIONS		
		1986	1981	DIFFERENCE
Senior Institutional Services Supv.	2,147	1.0	2.0	-1.0
Institutional Services Supervisor	1,924	3.0	3.0	0.0
Supervisory Personal Prop Worker	1,816	7.0	6.0	+1.0
Personal Property Worker	1,619	69.3	49.3	+20.0
Institutional Laborer	1,480	55.9	64.3	-8.4
Institutional Helper	1,176	<u>37.0</u>	<u>42.3</u>	<u>-5.3</u>
TOTALS		173.2	166.9	+6.3

Organization of Custodial Services

Prior to 1985, the Building Services Department provided the bulk of the County's housekeeping and custodial services. In 1985, this department was merged into the Facilities Management Department. The Facilities Management Department now provides custodial services to all County departments, except for specialized services in detention and hospital facilities. Table E-3 contains a list of the numbers of positions budgeted for housekeeping and custodial jobs in each unit with such budgets.

Table E-3
 Budgeted Housekeeping and Custodial Positions
 By Department
 Los Angeles County

<u>DEPARTMENT</u>	NUMBER OF POSITIONS		
	<u>1986</u>	<u>1981</u>	<u>DIFFERENCE</u>
Facilities Management	1,068.1	1,545.9	-477.8
Hospitals Health Centers	121.4	706.9	-585.5
Sheriff	56.0	40.0	+16.0
Probation	41.0	89.0	-48.0
Public Library		76.0	-76.0
Museum of Art		30.5	-30.5
Flood Control		10.3	-10.3
Public Social Services		10.0	-10.0
Arboretum		3.0	-3.0
Children's Services	<u>3.0</u>	<u>0.0</u>	<u>+3.0</u>
Total	1,286.5	2,511.6	-1,222.1

Cost of Services

The direct budgeted annual labor cost of in-house custodial and housekeeping services is \$22.6 million. The County presently contracts for an additional \$8.7 million. Assuming direct overhead rates of 80%, the total cost of in-house custodial and janitorial services is \$40.7 million. The total annual cost of all custodial and janitorial services is thus \$49.4 million.

Contracting for Custodial Services

The County began contracting for custodial services in fiscal year 1981-82. Since then, 1,222.1 custodial positions have been removed from departmental budgets. The County has awarded 116 contracts, including renewals, for an accumulated value of \$22.9 million. The accumulated savings or cost avoidance from these contracts was \$21.0 million, or 47% of

the actual or anticipated direct County cost for the services replaced by contracts.

In keeping with the Board's policy of incrementalism, the County has added positions and facilities gradually. Each of the contracts is small, relative to the size of the entire resource the County commits to custodial services. The average current award is \$270,400, affecting 16.7 positions. The largest single amount awarded by the County for custodial services contracting was \$1.6 million. The smallest single contract was for \$19,449. The maximum number of positions deleted due to such contracts was 125.0; the minimum was 1.7.

Departments contracting for housekeeping and custodial services include Children's Services,, Facilities Management, Museum of Art, the Museum of Natural History, and the Public Library. The Museums and the Library have eliminated their in-house custodial operations, including direct supervision.

Sources of Contract Savings

The savings from contracting for housekeeping and custodial services average 47.8% of the avoidable County costs for the same service. With few exceptions, the contracts are so small, and affect such a limited amount of the County's custodial workload, that avoidable costs consist of the salaries and wages of non-supervisory labor, plus an insignificant amount for supplies.

The amounts saved or avoided in these cases are attributable to reduced labor costs. Contractors pay lower wages and sometimes employ fewer workers. Their overheads may also be smaller; this is an unknown quantity, since contractors do not routinely reveal their costs and profit margins.

Table E-4 contains a comparison of the wage rates for janitorial and custodial work paid by Los Angeles County to the rates paid by other employers in the Los Angeles County region.

Table E-4
Comparison Of Hourly Wages
Custodial, Housekeeping and Janitorial Services
Los Angeles County
1986-87

<u>Positions</u>	<u>L.A.¹ County</u>	<u>Local² Governments</u>	<u>CA⁴</u>	<u>M&M³ Survey</u>	<u>Avg.</u>	<u>% Diff.</u>
Janitor/Custodian	\$7.45	\$8.84	\$7.26	\$11.60	\$9.33	-20%
Jan./Custod. Supv.	\$9.28	N/A	N/A	\$12.92	\$12.92	-28%

The County has not retained data on how many employees the contractors use to conduct the work, or in the specific wage rates paid by those contractors. To obtain such information, we

¹L.A. County Code, Chapter 6.28, Salary Schedules.

² "1987 Wage & Salary Survey" high interquartile range, L.A. area, prepared by the California State University, the County of Los Angeles, Long Beach Unified School District, L.A. Community College District, L.A. County Office of Education and L.A. Unified School District.

³ Merchants and Manufacturers Association, "Wage Survey, 1986", high interquartile range.

⁴ Bureau of Labor Statistics, "Area Wage Survey: Los Angeles, Long Beach Metropolitan Area", October 1985.

reviewed one-contract in detail and interviewed the contractor. The results are discussed below in the case study example.

The actual effect on permanent county employees has been minimal in the case of contracting for housekeeping and custodial services. Table E-5 lists the number of employees and percentage of total budgeted positions in each type of employee turnover for custodial classifications.

Table E-5
Turnover of Custodial Employees
1985-1986
Los Angeles County

<u>Reason For Leaving</u>	<u>Number</u>	<u>% Rate</u>
Laid off	0	0.00
Retirement	24	1.86
Resignation	61	4.73
Other	3	0.23
Total	88	6.82

Example

In December 1984, the Facilities Management Department solicited proposals for custodial services at two facilities, the Traffic Division of the L. A. Municipal Court and the Department of Adoptions. The contract was for four years with one year guaranteed and three year annual renewal options. The term of the contract was from July 1, 1985 through June 30, 1989. The two buildings consisted of 785,497 square feet, 295,262 in structures and 490,235 in adjacent property (sidewalks and parking lots).

Twenty-three (23) contractors submitted proposals to the County. Facilities Management selected one company, based on the following evaluation criteria:

- proposed fee (25%),
- experience and capability (25%),
- staffing pattern (25%), and
- employee benefits (25%).

The County's RFP prescribed some job tasks that current County custodial employees do not perform. These included pest extermination and parking lot sweeping. These tasks expanded the scope of service.

The estimated gross avoidable cost of in-house production for four years was \$747,112. The maximum value of the contract was \$595,365, including \$54,124 for unexpected service requirements. The estimated gross savings was \$205,871 (27.6% of the gross avoidable cost) if no unexpected services were required. These savings were reduced by \$9,401 in first-year contract administration costs and by a reduction of \$32,304 in Federal and State subvention to the Department of Children's Services. Therefore, the net savings to the County were \$164,166 (24.5% of the County's \$667,464 share of the avoidable cost, net of subvention).

The employee impact expected by this contract was the elimination of eight filled positions, including one first-level supervisory position. All employees were reassigned within the County.

The contractor currently employs nine people (seven are located at the Traffic Courts and two at the Children's Services Division). They have one operations manager, one supervisor, and seven custodians at the sites. The operations manager's wage is \$7 an hour, the supervisor's is \$6 an hour, and the custodians' is \$4 an hour. The contractor pays no benefits.

The contractor has advised us that he will not renew the contract for an additional year. A formal termination notice has been sent to Facilities Management. The contractor cited problems with location complaints. He had not experienced problems with FMD's quality assurance measurements or communication regarding complaints. He felt that Facilities Management personnel had been fair and reasonable. However, the problem was that employees of the Traffic Courts and Adoptions would call them directly and request immediate clean-up. The company felt obliged to comply. These complaints were frequent and never went through the Facilities Management Department. The company was tired of dealing with the location personnel and felt that although Facilities Management was cooperative, it was unable to get the locations to channel their complaints.

The contractor also expressed concern about the pricing mechanisms used by the County. Unlike the State of California and the Federal Government, the County does not use prevailing wage requirements. Prospective custodial bidders then are forced to base their salaries on minimum wages to be competitive. This in turn increases their overhead rates.

Often it is not financially beneficial to bid for a County contract under these circumstances. It is difficult to get and keep good custodians at these wages. This pricing method also gives advantage to the smaller "mom and pop" custodial services because they have lower overhead costs to cover.

Another concern expressed by the contractor was the way the County distributes RFP's and notifies businesses for walk-through tours. According to the contractor, the state does not notify all bidders, nor does it allow all of them to go on the tours. Instead, the state only notifies bidders who are listed as being qualified to handle the square footage involved. This reduces the competition and the bidders can submit more realistic proposals.

CONTRACT MONITORING

The recent report, "Management Audit of Contract Practices and Results in Los Angeles County," prepared by Harvey Rose Accountancy Corporation for the 1986-87 L.A. County Grand Jury addressed contract monitoring of custodial services by the Facilities Management Department. In particular, the report emphasized:

"Custodial service contracts are not monitored consistently and penalty assessments for less than satisfactory work are not applied consistently; also, there is not clear accountability and responsibility for monitoring some contracts."

The Contract Services Division of Facilities Management was formerly responsible for monitoring of contracted custodial services. However, the Department has reduced the Division's

staff by 10 as part of the plan to transfer monitoring responsibilities to the regions. The temporary splitting of responsibility between the two Divisions contributed to the lack of monitoring consistency and frequency cited in the Grand Jury report.

Facilities Management's Custodial contracts include clear statements of required performance and methods, frequency of task performance, required monitoring contract review meetings between the contractor and the County, and specified penalties for inadequate performance and termination clauses. Although one would think that these safeguards would normally produce thorough monitoring on the part of the Department, it was not found that it did. It was found that the frequency of site visits depended on the size of the buildings and were not as random and as frequent as expected. The required Quality Control Inspection Forms used for rating the contractors' performance were not completed at expected frequencies. User complaint records were not maintained unless a written response was given. Unclear contract accountability was also found within the Facilities Management Department.

On the other hand, County building administrators attested to the high level of contractor performance and praised the Contract Services Division. They considered contractors to be very conscientious and cooperative in the performance of their duties.

The Grand Jury study went on to recommend that Facilities Management:

Develop, implement and maintain quality assurance plans for each facility receiving contracted custodial services.

Require management personnel in CSD [Contract Services Division] to closely supervise compliance with the quality assurance plans to assure that all facilities are monitored as prescribed and that penalties and corrective actions are applied in a consistent manner for all contractors, and maintain detailed records to document monitoring activities and provide access to contractor performance records for evaluation purposes.

The implementation of these recommendations would improve both the monitoring of custodial contracts and communication between the contractor, the user departments and the Facilities Management Department. Many of the complaints that the contractor we interviewed had with the County stemmed from the user department directly contacting them without going through Facilities Management first. They felt that this circumvented the established monitoring process and caused them a lot of extra work which was not specified in the contract. The complaints by the user department could also have been reduced if Facilities Management had conscientiously followed the established monitoring guidelines and enforced the penalties.

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APPENDIX F

CASE STUDY - PRINTING

APPENDIX F

PRINTING

The Printing Industry

According to the most recently published data (collected in 1984) by the Industrial Employment (ICE) Project,¹ the printing and publishing industry within the boundaries of Los Angeles County is comprised of 2,500 work sites and employs 57,000 people. Approximately 45% of the worksites and 55% of the employees are located in the City of Los Angeles. The remainder are distributed widely among the other cities and a few unincorporated areas.

County Government's Need for Printing

According to a 1986 CAO study of the County's printing needs, operations, and costs, the 14 County print shops produce approximately 328 million impressions in a year. They involve standard "flat* type forms, generally printed with black ink on paper ranging from 15 lbs. to 110 lbs., but mostly on 20 lb. bond. In addition, an unstated volume of impressions is provided by commercial vendors under open competitive bid on a per-job basis. These are primarily continuous and unit set forms which cannot be produced in-house; they also include overflow of flat forms.

¹Los Angeles County, Department of Community and Senior Citizens Services, et al., Industrial - Commercial Employment Project, Los Angeles, CA., December 1986.

The annual costs to operate the County's 14 print shops during fiscal year 1985-86 are estimated to be as follows:

-- 113 employees, full and part-time	\$2.9 million
-- materials for 304 million impressions	1.3 million
-- 51,000 square feet of space at market rates	0.7 million
-- average annual replacement of equipment	0.1 million
TOTAL	\$5.0 million

Because some costs are estimated and others are unavailable, this total is probably understated.

Not all of the above costs are avoidable if the work is contracted. For example, the space would probably remain in the County's inventory and staff who work part-time on functions other than printing may be retained.

The approximate current book value of the more expensive equipment exceeds \$800,000. This assumes straight line depreciation. It includes equipment such as presses, photocopiers, bindery machines, paper cutters and drills with an expected useful life of 15 years. It does not include file cabinets, desks and chairs with an indefinite life expectancy and low replacement cost.

The two central print shops operated by P&S produce approximately 75% of the impressions at about 65% of the total cost. The average cost per 1,000 impressions is about \$30-35 in the P&S Civic Center print shop, \$13 in the other P&S shop, and an average of about \$28 in the 12 departmental print shops. The

CAO found that the latter do not maintain records which facilitate comparison of production and costs.

The total annual in-house cost of the P&S print shops is about \$2.4 million. The value of the contracted printing is \$5-6 million.

Currently there is a pattern of peaks and valleys in workload. During low demand periods, employees may be assigned to other tasks beneath their pay level. Work may sometimes be run on unsuitable and non-cost effective equipment.

Recent County Activity

On June 3, 1986, the CAO recommended that the County solicit proposals to contract for all printing except that performed by inmates at the Pitchess Honor Rancho as vocational training. The Board of Supervisors approved.

This is one example of a project under the CAO's "Proposition A Accelerated Contracting Plan", where the CAO has issued RFP's for a service County-wide rather than having each department issue its own RFP. The CAO has issued three RFPs for different kinds of printing services:

- quick turnaround jobs (8 hours to 5 days),
- low to intermediate volume jobs (to 25,000 copies),
- high volume jobs (over 25,000 copies).

The RFPs did not permit proposals for the application of such up-to-date technologies as linking a printing firm with County computers to perform typesetting remotely and to transmit text by wire, or substituting microfiche or on-line manuals for the printing of hard copies.

The deadline for vendors to submit bids was April 24, 1987. Several cost effective proposals were received. The County has asked the bidders to revise their bids based on free use of County equipment and space. One bidder has offered to hire all the displaced County staff for openings throughout his business.

The County invited the employees of the P&S Printing Services Division to submit a proposal as a newly-formed business. They declined to do so for several reasons related to their own business expertise, the amount of capital needed to acquire competitive equipment, and changes occurring in the nature of the demand for printing.

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APPENDIX G

CASE STUDY - FOOD SERVICES

APPENDIX G

CASE STUDY - FOOD SERVICES

Six departments within Los Angeles County operate food services for their residential populations. Food services workers are employed for planning, preparing and serving food at the various residential sites. The position classifications, pay rates and number of budgeted positions are displayed in Table G-1 below.

TABLE G-1
 Monthly Pay and Budgeted Positions
 Food Service Workers
 Los Angeles County

CLASSIFICATION	PAY RATE (\$/MONTH)	NUMBER OF POSITIONS		
		1986	1981	DIFFERENCE
Production Manager-1	2557	5	2	+3
Food Production Manager-2	2781	2	5	-3
Food Production Manager-3	2962	1	2	-1
Food Services Chief-1	3210	1	1	0
Food Services Chief 2	3487	1	3	-2
Food Services Chief Med. Center		0	1	-1
Food Services Consultant	3234	1	4	-3
Baker	1264	1	7	-6
Senior Baker	1647	6	5	+1
Head Baker	2158	1	1	0
Butcher	1787	1	6	-5
Senior Butcher	1647	6	5	+1
Assistant Cook	1248	14	36	-22
Cook	1426	19	52	-33
Senior Cook	1611	113	118	-5
Head Cook	1619	28	30	-2
Chief Cook	2169	3	7	-4
Food Services Worker	1135	39	222	-183
Utensil Washer	1185	1	11	-10
Intermediate Food Services Worker	1170	65	332	-267
Senior Food Services Worker	1293	9	31	-22
Head Food Services Worker	1647	4	25	-21
Chief Food Services Worker	3210	1	2	-1
Dining Room Service	1185	1	38	-37
Head Dining Room Service	1454	1	12	-11
TOTALS		324	968	-644

Organization of Food Services

Prior to 1981 County departments provided food services in-house. In FY 1980/81 two of the departments began contracting this service. Facilities were added one by one. By 1986, seven different facilities (four hospitals and three juvenile probation halls) were using contract services to provide their food services. Table G-2 below lists the departments which have food service functions, the number of positions in 1981 and 1986, and the difference since contracting started in 1981.

TABLE G-2

Budgeted Food Service Worker Positions
By Department
Los Angeles County

<u>Department</u>	<u>Number of Positions</u>		<u>DIFFERENCE</u>
	<u>1986</u>	<u>1981</u>	
Sheriff	93	75	+18
Health Services	150.8	717	-566.2
Probation	49.4	156.1	-106.7
Forester & Fire Warden	13	16	-3
Childrens Services	13.1	0	+13.1
Military and Veterans Services	<u>2.1</u>	<u>0</u>	<u>+2.1</u>
	321.4	964.1	-642.7

Cost of Service

The direct budgeted annual labor cost of in-house food service amounts to \$6.2 million annually. The County presently contracts for \$1.5 million. Assuming a direct overhead rate of 80%, the total in-house cost of the food services is \$11.2 million annually. The estimated combined annual total is \$12.7 million.

Contracting for Food Services

Since 1981, 643 Food Service Worker positions have been removed from departmental budgets. The County has had 35 contracts, including renewals, for an accumulated value of \$61.6 million. The accumulated savings or cost avoidance from these contracts is \$10.3 million, or 14% of the actual or anticipated direct County cost for the services replaced by contracts.

In keeping with the Board's policy of incrementalism, the County has contracted for positions and facilities gradually. Each facility has been contracted separately. The terms of the contracts range from three to seven years. The average award is \$1.6 million dollars and affects 17 positions. The largest amount awarded by the County has been for \$6.8 million at LAC/USC Medical Center. The maximum number of positions deleted was 288.

Sources of Contract Savings

According to the contractor, savings are attributable to improved private sector purchasing practices and increases in contractor efficiency. Wages and benefits paid by the contractor are claimed to be equal to, or better than, the County's. Table G-3 below displays wage data from various sources.

Table G-3
 Comparison of Hourly Wages¹
 Food Services Workers
 Los Angeles County
 1986-87

<u>Positions</u>	<u>L.A. County</u>	<u>Local Governments</u>	<u>CA</u>	<u>M&M Survey</u>	<u>Avg.</u>	<u>% Diff.</u>
Food Service Worker	5.24-5.76	5.04-7.16	5-7.12	NA	6.05	-4.7%

Example

In 1984, the Probation Department solicited proposals for food service at Los Padrinos Juvenile Hall. The contract was for three years with one year guaranteed and two years annual renewal options. The contract was for 1,200 to 2,200 meals per day. The average number of meals per day to be served was 1,664.

Six contractors submitted proposals to the County. The Probation Department selected one company based on the following criteria:

- price (30%)
- understanding of work and service requirements (30%)
- experience (15%)
- organizational capacity and stability (15%)
- conformity to RFP (10%)

Morrison's Management Company was recommended to receive the award. They were the second lowest bidder. However, Morrison's was selected because the Department had had previous successful experiences with them and they rated the highest in overall RFP evaluation.

¹ See Table E-4 for sources.

The estimated gross avoidable cost of in-house production for the first year of the contract was \$1,283,533. The estimated first-year value of the contract was \$1,052,768. Estimated savings were \$230,765 (18% of avoidable cost), if no unexpected services were required. The number of positions used by the contractor (27) was also 18% less than the number eliminated by the County (33).

The contract provided for annual renewals by joint agreement of the department and the contractor, with price adjustments based on changes in the Consumer Price Index (C.P.I.). The contractor has not always requested the adjustment as a condition of renewal, although the C.P.I. and the wages which the County pays its own employees have increased.

There was no employee impact expected by this contract. Previously, County employees had been impacted when the original contract was granted in June 1981. At this time all County employees were reassigned within the County. Thirty-three food service positions were avoided by using contracted services. The contractor currently employs approximately 27 workers at this site. Table G-4 outlines the positions and salaries. According, to the contractor, benefits totaling an additional 32% are available. They include health, dental, life insurance and retirement.

The contractors salaries equal or exceed the County's salaries for all but the starting salary of the entry-level unskilled position. It is unclear, however, whether the 32% benefits which are available are in fact received by all of the hourly employees. This benefit level is equivalent to County civil service benefits.

TABLE G-4

COMPARISON OF CONTRACTOR'S AND COUNTY'S
FOOD SERVICE SALARIES AS OF JANUARY 1, 1987
FOR LOS PADRINOS JUVENILE HALL

<u>Positions Used by Contractor</u>	<u>Contractor's Salaries</u>	<u>Pos. Deleted by county</u>	<u>County Salaries</u>
1 Manager	\$30-40,000/yr.	N/A	N/A
1 Asst. Mgr.	\$20-30,000/yr.	1 Head Cook	\$19-24,000/yr.
3 Lead Cook	\$12.00 /hr.	3 Sr. Cook	\$7.80-9.70/hr.
3 Baker	\$10.00-12.00/hr	1 Baker	\$8.90-9.95/hr.
3 Cook	\$7.50-12.00 /hr.	3 Cook	\$6.90-8.60/hr.
3 Working Supv.	\$8.00-9.00 /hr.	3 Sr. Fd. Svc. Wkr.	\$6.58-8.18/hr.
		5 Fd. Svc. Wkr.	\$6.07-7.56/hr.
13 Fd. Svc. Wkr.	\$4.00-8.00 /hr.	14 Int. Fd. Svc. Wkr.	\$6.33-7.18/hr.

Sources: Interviews with contractor and Probation Department management; County salary ordinance.

The contractor and the County have been mutually pleased with the contract. Morrison's was recently awarded the contract for an additional three years. Both the County and Morrison's believe that the success of the contract has been because the RFP was written well. Expectations were then clear from the very beginning on both sides. The Probation Department also has a food service consultant who is a registered dietician. This person monitors the contract and meets with Morrison's on a regular basis. The Probation Department has indicated that Morrison's is cooperative. Personnel with the Health Services Department, which also has contracts with Morrison's, also commented favorably.

APPENDIX H

CONTRACT STUDY METHODOLOGY

APPENDIX H

CONTRACT STUDY METHODOLOGY

The staff of the Economy & Efficiency Commission collected data for this report using five approaches: a literature & special studies review, a series of interviews, a review of available Los Angeles County's data on contracting, attendance at conferences, and site visits to other governments with contracting programs.

The literature and special studies review included sources found in two independent computer searches (Dialog and Info track), relevant bibliographies, journal indices, government publication indices, library catalogues, association studies, and previous reports published on Los Angeles County contracting. In addition, Los Angeles County internal memoranda and other public documents were reviewed.

Interviews were conducted with individuals from the following categories:

- Academicians
- Interest Group Lobbyists
- Los Angeles County personnel
- Los Angeles County Commission and Committee members
- Officials of other government jurisdictions
- Private contractors

- Union leaders
- Professional consultants

The information elicited in these interviews included:

- Job experience levels working with Los Angeles County contracting
- Job responsibilities related to contracting
- Types of contracting done by Los Angeles County and elsewhere
- Services contracted by Los Angeles County and elsewhere
- How contract ideas were developed, who initiated them and what happened to them once they were proposed in Los Angeles County
- Major issues with Los Angeles County contracting and elsewhere
- Suggestions for improving Los Angeles County contracting and elsewhere
- Relationship of contracting to Los Angeles County productivity improvement efforts
- Relationship to other Los Angeles County and elsewhere management/organizational issues
- Interpretation of what is meant by "cost effectiveness" in Los Angeles County contracting
- Employee impact in Los Angeles County and elsewhere
- Contract monitoring in Los Angeles County and elsewhere
- Contract competition models used by other governments

Staff attended conference put on by the American Society for Public Administration (ASPA) and Los Angeles County's contract unit. Academic researchers and government officials gave presentations at the (ASPA) conference. Private contractors gave presentations and distributed information on their services at the Los Angeles County contract unit conference.

APPENDIX I

HISTORY OF ORDINANCES IMPLEMENTING PROPOSITION A

APPENDIX I

HISTORY OF ORDINANCES IMPLEMENTING PROPOSITION A

This Appendix contains a description of the various changes that the Board has adopted to the implementing ordinance for Proposition A contracting. The citations are to the County Code.

Proposition A modified the Charter to read:

"Sec. 44.7. Nothing in this article shall prevent the County, when the Board of Supervisors finds that work can more economically or feasibly be performed by independent contractors, from entering into contracts for the performance of such work. The Board of Supervisors shall adopt an ordinance specifying criteria for entering into contracts, and specifying competitive bidding procedures for the award of such contracts."

On January 31, 1979 the Board of Supervisors unanimously passed the first ordinance in a series implementing the Charter amendment. The ordinance was modeled after Federal procurement rules in effect at the time. The ordinance added the following provisions to the County Code:

1. Scope. Stipulated that contracts awarded under the authority of Proposition A do not include mandatory contracts, sundry services, purchasing, leasing, or acquisition of materials, supplies, equipment or other personal property. In short, it applies only to personal services, and only to services that could not be contracted before Proposition A (2.104.250)
2. Definitions. Defined invitations for Bids (IFBs) and Requests For Proposals (RFPs) in standard terms (2.104.260).
3. Prior Approval. Provided that departments obtain the approval of the Board of Supervisors and the CAO before soliciting bids for work (2.104.270).

4. Review. Required departments to obtain approval of solicitation documents by the CAO prior to distribution (2.104.280).
5. Bid Rejection. Specified conditions under which all bids can be rejected by the County (2.104.290).
6. Role of Purchasing Agent. Instructed the Purchasing Agent to receive bids and proposals (2.104.300)
7. Sealed Bidding. Provided for sealed bidding and both competitive and non-competitive negotiations (2.104.310).
8. Selection and Award. Defined conditions of selection and award - fixed price, lowest responsible bidder (2.104.310 et seq).
9. Information. Established conditions for bidding, including prompt availability of accurate information (2.104.360).
10. Evaluations. Established conditions for the departmental evaluation of proposals (2.104.370).
11. Prerequisites. Mandated the following conditions for all contracts under this authority (2.104.380):
 - the contract would be cost-effective;
 - would not impair the County's ability to respond to emergencies;
 - would protect confidentiality of information;
 - alternative sources would be available in the event of default by the contractor;
 - award would not infringe on the proper role of the county in its relationship to its citizens;
 - award would comply with applicable State and Federal regulations if financed in whole or part by Federal or State funds.
12. Reduction of County Services. Required departments to state in writing whether the contract would result in reduction of County services and if so to what extent (2.104.390).

13. Liquidated Damages. Required contract solicitation documents and contracts to contain liquidated damages clauses (2.104.400).
14. Performance Bonds. Required contractors to post performance bonds (2.104.410).
15. Board of Supervisors' Determinations. Required the Board of Supervisors to make a finding that the services can be more economically or feasibly performed by independent contractors (2.104.410).

First Revision: 1981.

In 1981, the Board of Supervisors changed the County Code as follows:

1. deleted the requirement that departments obtain the approval of the Board of Supervisors and the specific prior to solicitation (2.104.270).
2. added requirements that departments certify solicitation documents to the specific with the following checklist (2.104.280):
 - A description of the anticipated scope of the work to be contracted;
 - A statement as to the availability of budgeted funds;
 - Facts which support the projected cost-effectiveness of the proposed contracting;
 - A statement as to the possible impact on County tort liability; and
 - A statement concerning the projected employee-relations implications.
3. added requirements that the departments provide the Board with the following information (2.104.420):
 - Facts which support a finding that the work can be performed more economically or feasibly by independent contractors;
 - A description of the anticipated scope and cost of the work to be contracted;
 - A statement as to the availability of budgeted funds;
 - A statement as to the possible impact on County tort liability; and
 - A statement concerning the projected employee-relations implications.

The effect of the 1981 changes was to give departments more responsibility for approving and preparing solicitation documents and granting contracts. The departments were still required to demonstrate that each proposed contract would be feasible, cost effective, an acceptable risk for the County's liability, and provided for employee impact.

The changes also eliminated the role of the Purchasing Agent.

Second Revision: 1982.

In 1982, the Board amended the County Code to include prohibition of conflict of interest by County employees (2.104.295).

Third Revision: 1983.

In 1983, the Board adopted an amendment to the County Code permitting client departments of the Mechanical Department to request proposals from private companies for work provided by the Mechanical Department (2.104.280-C).

Fourth Revision: 1987.

In 1987, the Board amended the County Code further to eliminate the requirement for a finding that procurement proposals has to demonstrate cost-effectiveness. This new language aligned the County Code language with the exact Charter language which used "more economically." Now, if cost-effectiveness cannot be demonstrated in advance, the department may solicit a contract on a pilot basis. The determination of cost-effectiveness will now have to be based on the results of the pilot.

APPENDIX I

HISTORY OF ORDINANCES IMPLEMENTING PROPOSITION A

SUPPORTING DOCUMENTATION

Is available from the office of

Citizens' Economy & Efficiency Commission

APPENDIX J

INTERNATIONAL CITY MANAGERS' ASSOCIATION STUDY

APPENDIX J

Taken from: James Ferris and Elizabeth Graddy, "Contracting Out: For What? With Whom?," Public Administration Review 46 (July/August 1986) :341.

Is available from the office of

Citizens' Economy & Efficiency Commission

APPENDIX K

POTENTIAL SERVICES FOR CONTRACTING / PRIVATIZATION

APPENDIX K

POTENTIAL SERVICES FOR CONTRACTING I PRIVATIZATION

Based on information taken from Kenneth Clarkson, Philip Fixler, et al., The Role of Privatization in Florida's Growth, (Tallahassee, FL: Florida Chamber of Commerce Foundation, 1987), pp. 46-48. This study was conducted by the Law and Economic Center, University of Miami, and the Local Government Center, Reason Foundation.

GENERAL GOVERNMENT AND
SUPPORT SERVICES

Building/Grounds Maintenance
Building Security
Payroll
Tax Bill Processing
Tax Assessing
Data Processing
Delinquent Tax Collection
Legal Services
Law Library
Secretarial Services
Personnel Services
Labor Relations
Public Relations/Info. Services
Cafeteria or Food Service Mgt.
Grant Administration
Property Control

HEALTH & HUMAN SERVICES

Operation/Mgt. of Hospitals
Oper./Mgt. of Mental Health Facs.
Operation/Mgt. of Day-Care Facs.
Public Health Programs
Nursing Homes & Special Programs
Child Welfare Programs
Drug/Alcohol Treatment Programs
Programs for the Elderly
Education Service
Sanitary Inspections
Insect/ Rodent Control
Animal Control
Animal Shelter Operations

PARKS & RECREATION SERVICES

Recreation Services
Recreation Facilities Oper./Maint.
Park Landscaping and Maintenance
Cultural Arts Operations
Convention Center/Aud. Operations
Operation of Libraries
Operation of Museums

PUBLIC SAFETY SERVICES

Police/Fire Communication
Fire Prevention/Suppression
Crime Prevention or Patrols
Emergency Medical Services
Ambulance Service and Rescue
Traffic Control
Parking Enforcement
Vehicle Towing and Storage
Corrections Facilities Management
Protective Inspections
Consumer Affairs
Adjudication
Medical Examine

Physical Environment
& Public Works

Electric Utility
Gas Utility
Water Utility
Utility Meter Reading
Meter Maint./Installation
Utility Billing
Residential Solid Waste Collection
Commercial Waste Disposal
Solid Waste Disposal
Recycling: solid Waste
Wastewater Treatment
Flood Control
Conservation & Resource Management
Tree Trimming/Planting
Cemetery Mgt. & Maint.
Inspection and Code Enforcement

TRANSPORTATION SERVICES

Road & Street Maintenance
Street/Parking Lot Cleaning
Parking Lot/Garage Operation
Streetlight Operation
Airport Mgt./Control Tower Maint.
Traffic signal Installation/Maint.
Fleet Management/Maintenance:
Heavy Equipment
Emergency Vehicle

APPENDIX L

REFERENCES

APPENDIX L

REFERENCES

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APPENDIX M

MINUTE ORDER, BOARD OF SUPERVISORS, LOS ANGELES COUNTY

August 22, 1986



BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

383 HALL OF ADMINISTRATION/LOS ANGELES CALIFORNIA 90012

MEMBERS OF THE BOARD

PETER F. SCHABARUM
KENNETH HAHN
EDMUND D EDELMAN
DEANE DANA
MICHAEL D.ANTO NOVICH

LARRY J MONTEILH. EXECUTIVE OFFICER
(213) 874-1411

August 22, 1986

Mr. Joe Crail Chairman
Los Angeles County Citizens Economy
and Efficiency Commission
500 West Temple Street, Room 163
Los Angeles, California 90012

Dear Mr. Crail:

At its meeting held August 19, 1986, the Board of Supervisors accepted and approved the enclosed final report and recommendations of the Los Angeles County Contract Services Advisory Committee.

Further, the Board requested the Economy and Efficiency Committee, to monitor the results of the Contract Services Advisory Committees recommendations relating to the County's contracting program and to report to the Board on progress made.

Very truly yours,

LARRY J. MONTEILH
EXECUTIVE OFFICER

LJM: rl0:L4

Enclosure

c: John Campbell, Contact
Los Angeles County Citizens
Economy and Efficiency Commission



MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

Larry J. Monteilh, Executive Officer
Clerk of the Board of Supervisors
383 Hall of Administration
Los Angeles, California 90012

Chief Administrative Officer

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As arranged by Supervisors Schabarum, a presentation was made by John Hussey, Chairman of the Contract Services Advisory Committee.

On motion of Supervisor Schabarum, seconded by Supervisor Edelman, unanimously carried, the Board accepted and approved the Contract Services Advisory Committee's enclosed final report and recommendations.

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Enclosure

Copies distributed:
Each Supervisor
County Counsel

Letter sent to:
Chairman, Los Angeles County Citizens
Economy and Efficiency Commission

LOS ANGELES COUNTY

ECONOMY AND EFFICIENCY COMMISSION

ROOM 163 HALL OF ADMINISTRATION /500WEST TEMPLE/LOS ANGELES CAIFORNIA 90012 / 974-1491

Joel Crail, Chairperson
Robert J. Lowe, Vice Chairperson

Susan Berk
Gorge E. Bodle
Theodore A. Bruinsma
Gunther W. Buerk
John D. Byork
Jack Drown
Dr. Edward H. Erath
Louise Frankle
Dr. Alfred J. Freitag
Chun Y. Lee
Abraham M. Lurie
Lauro J. Neri
Sidney R. Peterson
Charles T. Richardson
Daniel M. Shirpo
Dean Sweeney, Jr.
Wally Thor
Robert L. Williams

September 22, 1987

Hon. Board of Supervisors
383 Hall of Administration.
Los Angeles, CA 90012

Dear Supervisors:

In August, 1986, following approval of the final report of the Contracting Services Advisory Committee, you asked our commission to continue the work of that committee on contracting policy.

At our regular meeting on August 5, 1987, the full commission adopted the enclosed report and recommendations on the County's contracting programs. Our task force studied all forms of contracting - mandatory, sundry services, and Proposition A. Our recommendations, if adopted and implemented, will improve performance of contracting in general, particularly Proposition A contracting. We have enclosed a list of recommendations. The report contains full discussion and documentation.

The Chief Administrative Officer has indicated disagreement with the recommendation which would require him to report details of departmental contracting activity. He has also indicated concern about the implementation of some of the other recommendations. We feel that the monitoring role is essential to accomplishing the potential of contracting. However, in adopting the report, our commission included a provision that our task force would continue to work with Mr. Dixon to devise

Supervisor
September 22, 1987
Page 2

means of achieving the intent of our recommendations while also reducing the level of his concern.

Therefore, we recommend that the Board of Supervisors:

1. Adopt the enclosed report and recommendations on Contracting Policy in Los Angeles County Government with the proviso that the details in the recommendations are subject to change as required for implementation;
2. Direct the Chief Administrative Officer to work with the Task Force on Contracting Policy to refine the details of the recommendations as needed for implementation; and,
3. Request the Economy and Efficiency Commission to report on the status within 180 days.

very truly yours,

Joe Crail, Chairman
Economy and Efficiency Commission

Theodore A. Bruinsma, Chairman
Contracting Policy Task Force

TAB:JC: rls
Encl.
DRAFT

LIST OF RECOMMENDATIONS

Recommendation 1: Goals

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement new contracting goals and programs which:

expand the scope of contracting to the mission functions of County government (County Code 2.104.380);

establish a clear priority on using contracting to improve County productivity through technology and organizational innovation (2.104.385);

identify areas for full privatization, including divestiture of County assets and operations to commercial enterprises.

Recommendation 2: Requests for Proposals

The task force recommends that the Board of Supervisors direct the CAO to work with department heads to revise the County's approaches to writing requests for proposals so that:

contracting encompasses a large enough proportion of the function to lead to overhead reduction within five years of award (2.104.420);

contracting focuses more on performance requirements of the work to be performed than on organization, staffing and labor inputs of the contractor (2.104.385);

where feasible, a contract can be used as a master agreement for purposes of expansion to additional bidders, departments, or workload without additional solicitations and proposals (2.104.300);

proposals can include cost-plus as well as fixed price bids (2.104.320-370).

Recommendation 3: Employee Impact

The task force recommends that the Board of Supervisors direct the Chief Administrative Officer to develop and implement improved methods of managing employee impact to achieve maximum savings from contracting, including at least the following (2.104.420):

outplacement services, special termination pay, early retirement, job training, and placement in County jobs;

set aside and carry-over from year to year of 5% or more of the annual savings from Proposition A contracting in a separate appropriation to fund the above programs;

preference for contractors whose proposals include plans for hiring County employees (2.104.380);

active programs to encourage employees to form private firms to provide as contractors services which they now provide as employees. (2.104.295).

Recommendation 4: Incentives

The task force recommends that the Board of Supervisors direct the CAO to:

permit in-house organizations to submit proposals in the same competition as contractors, under the same conditions, when the County plans to contract out their work (2.104.280-420);

integrate the performance pay, bonus, suggestion award, and budget savings retention plans, and other financial incentive programs, into a single comprehensive program (6.08.300-380, 6.10.075, 5.60.010-260, 4.12.150);

link at least half of any financial incentive, including compensation increases awarded in the Pay for Performance Plan, to quantified productivity improvement goals measured at the program level (6.08.320, 330).

Recommendation 5: Monitoring and Reporting

We recommend that the Board of Supervisors direct the Chief Administrative Officer to implement, to the extent feasible, a single policy governing all forms of County contracting. The policy would include:

reporting of each department's contracting plan in the published proposed budget for each type of contracting, and quarterly reporting by the CAO of the results, by type of contracting (4.12.070); central records in the Chief Administrative Office of the basic analytical and descriptive data in such County contracts of all types (2.08.070);

CAO responsibility to periodically evaluate the results of the County's contracting programs with emphasis on their effects on program-level productivity improvements (2.08.040);

increased integration of County-wide departmental productivity and contracting programs, including increased authority for contract and productivity managers (3.51.010-120, 2.104.250-420).