

Get Tough on Costly Contracts

SEIU 721 Members Call for Fully Employing City Workers to Trim \$2.3 Billion in Outsourcing

FACT SHEET

The City of Los Angeles has at least **3,000 contracts with private vendors worth \$2,257,472,124.** The city outsources construction, engineering, consulting, tree-trimming and countless other services.

Even though contracting represents an enormous commitment of taxpayer dollars, the public is largely unaware of this practice.

With the city threatening to cut core services, we need to take a hard look at how the city does business. No single source of information about city contracts is available to the public. SEIU Local 721 has compiled a database of contracts based on information from the City Clerk. Among our findings:

- Over 25% of contracts are actually amendments to existing contracts, many that increase the total amount of the contract without subjecting it to a competitive bidding process.
- We identified at least 55 contracts for “as needed” services. In many cases these services can be performed by current City employees.
- Evidence that some contracts include annual cost of living adjustments of up to 4% at a time when city employees are being asked for salary cuts and unpaid furloughs.
- Contract guidelines allow subcontractors to receive 5% markups. In some cases, firms list themselves as subcontractors.
- Contract guidelines also allow a 10% profit margin

Snapshot of Runaway Outsourcing

Top five contracting departments:

- 1. Public Works**
\$1,382,615,296
- 2. General Services**
\$246,050,995
- 3. Community Development**
\$131,497,715
- 4. Transportation**
\$114,283,209
- 5. Police**
\$70,389,572

The City Council has taken modest steps to limit outsourcing, but it needs to aggressively pursue measures to hold contractors accountable to the public.

- Contractors, not the city, are deciding whether to accept 10% cuts requested by the Council.
- Some contracts that deal with emergency services may be exempt, but exemptions should not be granted without explanation to the public.
- Without full public disclosure about the costs of contracting, we are putting corporate profits ahead of parks, prosecutors and public safety.



THE FACTS

THE CITY WORKER FIX FOR EXPENSIVE OUTSOURCING

Many of the largest contracts are for construction projects that the city does not have staff to perform. Yet it routinely outsources a wide range of services that qualified city employees could perform such as design work, project management, scientific and technical studies, tree-trimming and public outreach.

We believe many of these contracts could be partially or fully brought in-house. Examples:

- 47 contracts worth millions for “as needed” engineering contracts in Harbor, Department of Sanitation, and Bureau of Engineering.
- The Harbor Department has identified 37 contracts in its report to the City Council that duplicate work that city workers already do.
- \$10 million worth of tree service contracts. These are contracts administered by the Airport and Department of Water and Power

City professionals say that mandatory furloughs of top employees are driving the city to contract by default.

“A primary problem with the false furlough fix is the significant reduction in working hours, which limits our ability to complete critical engineering projects that would make LA a better place to live,” said civil engineering associate Michael Affeldt. One engineer calls contractors in his department **“overpaid draftsmen.”**

Bringing Openness and Accountability to Contracting

The City should adopt the following measures:

- Ensure contractors are not receiving an automatic COLA. Multi-year contracts now state rates are “subject to a 4% escalation” each year.
- Eliminate profit margins and subcontracting mark-ups. Board of Public Works contracts allow for a 5% mark-up on “sub-contract expenses” paid by the consultant to subconsultant for their services and a 10% built-in “profit.”
- Ensure the best price is achieved for the scope of work by prohibiting departments from amending contracts in order to avoid the competitive bidding process.
- End mandatory furloughs for engineers and scientists and move workers to funded positions to bring work in-house.
- Aggressively enforce the 10% cut on contracts and ensure that city has power to reduce contract budgets, not contractors (end volunteer reductions).
- Make publicly available the list of contracts that are exempt from the 10% cut and the justification for the exemption
- Work with the Coalition of LA City Unions to identify contracts that can be brought in-house.

Sources: SEIU Local 721 submitted an information request to the Los Angeles City Clerk for all city contracts. The Clerk’s office only maintain records on non-proprietary department contracts, which estimates to be about 85% of the total contracts. Based on this request, SEIU Local 721 identified 3,413 current contracts in 2009. Of these, we eliminated 782 contracts that we could clearly identify as non-service contracts (related to loans, bonds, deferred compensation, purchase of property and construction of affordable housing, or duplications due to amendments).

Review of contracts by the Board of Public Works, Department of Public Works, Police Department, General Services Department and others. City of Los Angeles Inter-Departmental Correspondence. “Mid-Year Financial Status Report and Three-Year Plan to Fiscal Sustainability,” Miguel Santana, City Administrative Officer. January 29, 2010.