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Standardizing Insourcing Costs Analyses for Prop A Contracts

Under another action on today’s Board of Supervisors agenda, the Board will consider a recommendation by the Internal Services Department (ISD) to award five “Proposition A” contracts for custodial services in five service Regions, encompassing 19 County departments, at 128 facilities. Contracting such services through private contracts is allowed under County Charter changes (Prop A) approved by Los Angeles County voters, as a cost savings measure, in 1978. Prop A is codified into County Code Chapter 2.121, “Contracting with Private Businesses.”

In recent years, this Board has expressed a preference to consider having certain work performed using County employees versus Prop A contracts. This is due, in part, to the belief that County employment will allow workers to attain economic self-sufficiency and stability and become contributing members of their local communities, and will enable them to better plan for their own and their families’ economic future. On July 16, 2019, the Board adopted a plan to develop a five-year phased-in plan and a multi-year strategy for bringing more Prop A contracts in house.

As part of every Prop A contract, the County Code requires the sponsoring

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County department to conduct a cost analysis (Avoidable and Unavoidable Costs) in contracting out the service, using the methodology established by the County Auditor-Controller. For Prop A contracts in excess of \$1 million, the Auditor-Controller audits the department's analysis and certifies its accuracy. Before approving a Prop A contract, the Board must make a finding that the services can be performed more economically by the contractor, per County Code. The Prop A Cost Analysis for the proposed custodial contracts, completed by ISD and verified by the County Auditor-Controller, shows that continuing to outsource the services to Pride Industries is expected to achieve 26% cost savings in the first year. Outsourcing will cost \$12,849,000 compared to a cost of \$17,477,000 (an increase of \$4,628,000) if the service were performed by County employees.

Even though the savings and costs (in dollars) to outsource and insource are the same (\$4,628,000), the percentage cost to insource is more than 11 percentage points higher (37.3%). For example, if a service performed by in-house staff costs \$1 million a year and it is outsourced at \$700,000, this is a 30% savings. But if that \$700,000 outsourced service is brought back in house at \$1 million, this is a 42.9% cost increase, even though the savings and costs are both \$300,000. In these circumstances, if the Board is considering two mirror images of the same proposal (outsource v. insource), it frequently appears significantly more costly to insource.

As a companion item to today's Prop A contract with Pride Industries, ISD has submitted a Custodial Services Reinvestment Report, which focuses on 193 County-owned facilities, including some of the facilities serviced by the Pride Industries contracts. ISD intends to follow up by submitting a pilot custodial insourcing plan as part

of their Fiscal Year 2020-21 Proposed Budget, so that the department can begin transitioning a small number of buildings from outsourced service contracts to in-house custodial operations, and gain a better understanding of how to transition a long-outsourced service back to being performed by County employees.

Specific custodial insourcing plans may vary by service location and custodial contractor, since each contract has different financial and employment terms. Some contractors, like Pride Industries, are certified Social Enterprises and pay their employees at, or above, the County's Living Wage of \$15.79 per hour. They also offer full benefits and have Collective Bargaining Agreements, which may not make them ideal candidates for insourcing.

The ISD insourcing cost analysis report, produced by the Matrix Consulting Group, estimates a 61.1% cost increase (+\$22.9 million) to insource custodial services at these 193 County facilities, bringing our total costs from \$37.5 million to \$60.5 million. If we adjust the insourcing estimate to spread one-time start-up costs (\$4.2 million) across a six-year period, the cost increase to insource is 51.8% in year one.

The difference in custodial insourcing cost increases (37.3% v. 51.8%) between ISD's Prop A Cost Analysis (concerning the Pride Industries contracts) and the insourcing analysis produced by the Matrix Consulting Group is 14½ percentage points. The difference is more pronounced when comparing the five service Regions in the Prop A Analysis, which have insourcing cost estimates between 30.6% (Service Region 24) and 40.8% (Service Region 22). Looking only at service Region 24, the difference in insourcing estimates (30.58% v. 51.8%) is 21.22 percentage points.

The differing insourcing estimates might be due to the particular mix of buildings

in the two analyses (some buildings are more difficult to clean or to supervise the cleaning of, or may require different cleaning methods, because of building materials). Based on the Board's history with insourcing estimates, it is likely that the varying estimates are related to the different assumptions in the insourcing model used by the outside consultant as compared to the cost model developed by the Auditor-Controller. It is unclear what is driving these differing assumptions.

Since the passage of Prop A in 1978, the County has transitioned many services from an in-house model, where services are performed by County employees, to an outsourced model, where they are performed by private contractors, who tend to have a more flexible staffing model than the County does. In calendar year 2018, the County had 225 Prop A / Living Wage contracts, across 16 departments, with a total authorized spending of \$333 million. Because not all outsourced contracts are subject to Prop A or the Living Wage, the actual amount of outsourced services is higher, perhaps significantly.

As of Fiscal Year 2018-19, the Board had created more than 1,789 County jobs in its effort to bring more contracted work in-house. Of these 1,789 County jobs created, 1,385 (78%) are related to the Nurse Staffing Plan at the Department of Health Services. With the notable exception of DHS and the Department of Public Works, almost no County departments have been successful at converting service functions (custodial, fleet maintenance, landscaping, laundry, food service, etc.) from contracts to in-house staff.

Because of the difficulty in bringing contracted work back in house and the variability of insourcing cost estimates (sometimes even within the same department), it

is important for Board to engage with the Chief Executive Officer, County departments, and the Auditor-Controller, in consultation with Labor Representatives, to update the methods that we use to estimate staffing requirements (number of staff hours needed, productive work hours, supervisor to subordinate ratios, full-time and part-time staff), start-up costs and amortization, ongoing costs, direct and indirect overhead costs, recruitment costs and timelines and insourcing ramp-up timelines. Any updated standards should be included in the Auditor-Controller's Fiscal Manual for completing the required Prop A Cost Analysis. This updated methodology should help align future insourcing cost estimates and minimize their variability.

WE, THEREFORE, MOVE that the Board of Supervisors instruct:

1. The Director of Internal Services, working with relevant Department Directors and the Chief Executive Officer, to consider, as part of the five-year phased-in insourcing plan:
 - a. Including County Custodial contracts, except those with Certified Social Enterprises like Pride Industries, if feasible.
 - b. The potential to have displaced workers and County clients go through the Preparing Los Angeles for County Employment (PLACE) program as part of the onboarding process for any newly-insourced positions. PLACE is a career preparation partnership between the County of Los Angeles and Worker Education Resource Center (WERC) that prepares County residents, with a focus on residents with barriers to employment, for entry level jobs at the County.
2. The Director of Internal Services, working with the Director of Public Social

Services, the Director of Personnel and the Acting Director of the Workforce Development, Aging and Community Services Department to include, as part of the five-year phased-in insourcing plan, an assessment of the viability of using subsidized employment, job training, Welfare-to-Work, Measure H, Probation Department, Workforce Innovation and Opportunity Act or other funding to subsidize recruitment, training and staffing expenses for County insourcing efforts, to reduce the cost to bring this work in house.

WE FURTHERMORE MOVE that the Board of Supervisors instruct:

3. The Acting Auditor-Controller, in consultation with the Chief Executive Officer , the Director of Internal Services, related Department Directors and Labor Representatives, to submit a report in six months that:
 - a. Analyzes the differential cost estimates in the consultant insourcing report and ISD's Prop A Cost Analyses and,
 - b. Makes recommendations on updating the process used by departments to calculate the savings to outsource and to insource services in the future, which should be reflected in future scopes of work for insourcing consultants.
 - c. Makes recommendations to change the title and format of the Prop A Cost Analysis and Board Letter boilerplate language to provide a balanced analysis of the costs to outsource and the costs to insource, instead of the current focus on "How much money we save by outsourcing." The updated format should include both nominal and

percentage cost increments to outsource and insource, to provide the Board with “a la carte” options (where feasible) to outsource or insource the services in each Prop A cost analysis.

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