

LOS ANGELES COUNTY

ECONOMY AND EFFICIENCY COMMISSION

Gunther W. Buerk, *Chairperson*
Betty Trader, *Vice Chairperson*

July 29, 1991

HONORABLE BOARD of SUPERVISORS
383 Hall of Administration
500 West Temple Street
Los Angeles CA 90012

Alfred P. Balderrama
George B. Bodle
Ann King Cooper
Joe Crail
Jack Drown
Emma B. Fischbeck
Louise Frankel
Dr. Alfred J. Freitag
Chun Y. Lee
Robert J. Lowe
Abraham M. Lure
Lauro J. Nan
Arthur J. Pecver
Robert H. Philibonian
Daniel A. Shapiro
Randolph B. Stockwell
Wally Thor
Robert L. Williams
Efrem Zimbalist, III
Efrem Zimbalist, III

Dear Supervisors:

SUBJECT: **CONTRACTING TASK FORCE REPORT AND RECOMMENDATIONS**

In August 1986, the Board of Supervisors requested the Economy and Efficiency Commission to continue the work of the contracting services advisory committee on contracting policy.

In August 1987, the full Commission adopted the "Report On Contracting Policy In Los Angeles County Government" that comprised studying all forms of contracting - mandatory, sundry services, and Proposition A.

Although the study, among other areas, examined developing and implementing improved methods of managing employee impact resulting from privatization (government agency contracting out to a private sector organization a service normally performed by the government agency), the study determined that the actual number of permanent employees that had been impacted was quite small. However, County personnel specialist believed that any contracting of services currently performed by employees would have a major impact on positions held by minorities and women, because the services that had been contracted to date involved low level auxiliary minority held positions such as custodial, food, and laundry workers. Therefore, since at that time fifty percent (parity figure which is defined for affirmative action purposes as the percentage of each affirmative action target groups representation in the total County population) of the county's work force were members of ethnic minorities, it was construed by county personnel specialists that contracting of services performed by employees would have a major impact on positions held by minorities or women.

According to the County Office of Affirmative Action, the 1990 parity figure for minorities in the County's work force is 47.6

percent. However, the actual minority work force count is 44,148 of a total work force population of 70,180 representing an actual 62.9 percent of the County's work force. Therefore, with few exceptions most Proposition A contracting will impact minority employees.

Between 1979 and 1987, food service and custodial service jobs were privatized more than any others and represented jobs where more positions were eliminated than any others. During that period, 616.3 jobs were eliminated in custodial services.

The focus of this effort is to review and evaluate the direct or potential impact of contracting custodial functions, including the positive or negative human changes in employee morale, personal status, compensation and career paths.

The recommendations that follow provide rationale and achievable approaches to modify what is pictured as negative ramifications resulting from privatization, to provide avenues to increase minority participation regarding municipal contracts, and to provide for more effective and productive service delivery. Therefore, the Commission urges the Board to both adopt and implement the recommendations.

In supporting this study, staff reviewed past documentation, available literature on minorities and privatization, contracting elsewhere and data of Los Angeles County contracting efforts. Staff has conducted over forty interviews with experts in the field of privatization, County officials, County past and present professionals and past and present County custodians. The Task Force also reviewed County efforts regarding the implementation of the Commission's Board adopted 1987 "Report On Contracting Policy In Los Angeles County Government".

SUMMARY OF FINDINGS AND RECOMMENDATIONS

In summary, the Economy and Efficiency Commission's Task Force on Contracting findings and recommendations are:

FINDINGS

- o The August 1987 Economy and Efficiency Commission's recommendations included in the Board adopted "Report On Contracting Policy in Los Angeles County Government" have not been fully implemented.
- o Black men and women are more likely to be negatively impacted by public sector contracting out in Los Angeles County than any other ethnic group.
- o Privatization in Los Angeles County government that results in job loss will disproportionately harm black men and women.
- o Historically, ethnic groups especially blacks, hispanics, and

women that have faced discrimination when seeking managerial and professional employment are disproportionately found in government when they are employed in such capacities.

- o Low paid black males and females do not benefit from a change to private sector employment from Los Angeles County government.
- o Contracting out does not promote minority entrepreneurship in Los Angeles County.
- o Morale is low for both permanent and temporary "NC" (non-competitive) custodian employees in Los Angeles County government due to the constant threat of job loss or job displacement.
- o On average, cost discrepancies due to differences in wages paid by contractors as compared to municipal agencies are irrelevant to lower costs for identical services performed by contractors.
- o There are "6" factors relevant to cost differences between contractors and public agencies.
- o Funds designated to be set aside for re-training impacted Los Angeles County personnel affected by contracting out have not always been made available.
- o There is no program in Los Angeles County government established to aid minority businesses in obtaining performance bonds.
- o Contract custodial efficiency in County facilities over-all reflects satisfactory conditions.

RECOMMENDATIONS

- 1) The Commission recommends that as long as the majority of services proposed for privatization predominately affects minorities, that the Board of Supervisors instruct County management to meet with educators and private sector organizations to seek methods to alleviate the strong reliance by minorities and blacks in particular on public employment by:
 - Enhancing job opportunities in the private sector for higher occupational categories.
 - Increasing the over-all earning potential, promotional opportunities, status, and fringe benefits in the private sector.
- 2) The Commission recommends that the Board of Supervisors instruct County management to more aggressively aid minorities and blacks who are particularly adversely impacted in

obtaining employment both within County operations and the private sector where privatization has resulted in job displacement or loss of County employment to nullify job quality (**status, power, pay, fringe benefits, security, and promotional opportunities**) deterioration.

- 3) The Commission recommends that the Board of Supervisors instruct County management to persistently keep track of displaced and/or terminated permanent and temporary County employees in all cases, provide training and referral services to those employees terminated or displaced as a result of privatization, and insure that contractual terms and agreements regarding Proposition A contracts are adhered to.
- 4) The Commission recommends that the Board of Supervisors instruct the Chief Administrative Officer in conjunction with the Affirmative Action Compliance Officer to establish programs to enhance minority businesses by:
 - Developing techniques to make performance bonding more easily available to companies that otherwise would not be able to obtain bonding necessary to bid on County service jobs.
 - Enabling more small business minority firms to be more competitive when bidding for municipal contracts.
 - Providing small minority firms and incentive to participate in the bidding process.
 - Making minority businesses more aware of County procurement opportunities and making County agencies more aware of the services available from minority businesses.
- 5) The Commission recommends that the Board of Supervisors instruct County department heads to place any filled temporary "NC" employee either on a permanent County line item position or another line item position that provides for County fringe benefits. This recommendation would apply to all filled temporary "NC" line positions where the incumbent has been on the temporary "NC" line item position in excess of twelve continuous months of full-time service without the approval of the Director of Personnel.
- 6) The Commission recommends that the Board of Supervisors instruct County management to compare their service delivery costs and their methods of developing the costs to other large municipalities and large private firms that provide similar service and report the results of the comparisons to the Chief Administrative Officer to:
 - Determine if the department's service is produced efficiently as would be reflected by low absenteeism, employees taking shorter vacations, informal lines of communications, a younger non-unionized work force, and service delivers responsible for equipment maintenance.

- Attempt to modify departmental operations to more closely emulate the efficient producer if departmental operations are determined to be inefficient.
- 7) The Commission recommends that the Board of Supervisors instruct County department heads that are considering privatization as an alternative to County provided services to conduct a more rigid, careful, and thorough cost effective evaluation to determine if contracted services should be used so that:
- All available and appropriate costs that should properly be considered in the County's computation of services costs is included.
 - More accurate comparisons can be made in terms of the County's cost for performing a service versus proposed bid costs.
- 8) The Commission recommends that the Board of Supervisors appropriate funds for re-training displaced County permanent and temporary employees that result from privatization and that the allocated funds not be required to be repaid by the contracting County agency to insure that:
- County departments aggressively seek to retrain displaced County permanent and temporary employees.

The Task Force urges the Board to assure the implementation of all the recommendations.

Very Truly Yours,

The Los Angeles County Economy and Efficiency Commission

Gunther W. Buerk
Chairperson

LOS ANGELES COUNTY CITIZENS
ECONOMY AND EFFICIENCY COMMISSION
RECOMMENDATIONS

RECOMMENDATION 1

The Commission recommends that as long as the majority of services proposed for privatization predominately affects minorities, that the Board of Supervisors instruct County management to meet with educators and private sector organizations to seek methods to alleviate the strong reliance by minorities and blacks in particular on public employment by:

- enhancing job opportunities in the private sector for higher occupational categories.
- Increasing the over-all earning potential, promotional opportunities, status, and fringe benefits in the private sector.

Discussion:

A recent study by Robert Suggs, professor at Georgetown University's Law Center revealed that blacks at all levels of government are more inclined than whites to be public employees¹, and that blacks are more likely to be negatively impacted by public sector privatization than any other ethnic group (see chart 1). It has also been determined that comparatively greater opportunities are available in government for blacks both for higher occupational employment as well as earning potential².

Presently, according to Phillip Schneider, head of work force statistics for the Office of Personnel Management in his article in the August 17, 1989 issue of the Washington Post indicated that there are more working blacks employed by the federal government than by the private sector, and according to Robert Suggs the proportion of black professionals and managers found at all levels of government is extremely high (see chart 6) nearly doubling the percentage for whites and two-thirds again as much as for hispanics. Hispanics as opposed to blacks, do not disproportionately rely on government employment. According to the United States Bureau of the Census, 1983, between 1980 and 1984 the percentage of hispanic workers employed by government fell from 15.1 percent

¹ U.S. BUREAU OF THE CENSUS, 1983

² ROBERT E. SUGGS, MINORITIES AND PRIVATIZATION ECONOMIC MOBILITY AT RISK, P. 23

to 14.8 percent³. The data powerfully implies that government is not now, and will not soon become as essential to hispanics as it is to blacks.

When earnings of blacks, hispanics, and women are compared to the earnings of their white male counterparts in local government the gap in government has proven to be smaller than the gap in the private sector **(see chart 2)**⁴. Research performed by Dometrius and Sigelman in 1984 demonstrated that this comparatively superior objectivity extends to craft, clerical, and service jobs. With this, we consummate that job opportunities are more luring for minorities in the public sector which is due to an inequity in privatization efforts that could be removed by increasing attractiveness of private sector employment.

The intent of our recommendation is to, if not, shift the existing strong need for minorities and specifically blacks to seek public employment then to optimize job opportunities, earning power and career ladders in the private sector at the service workers level upward through the ranks of professionals and managers. Until a degree of parity in the private sector becomes available in terms of job quality, **(status, power, pay, fringe benefits, security and opportunity for promotion)** we will continue to see minorities leaning toward public sector employment in all fields of work endeavor. As previously stated public sector employment is simply more luring for minorities and particularly blacks than private sector employment, and as long as this situation dominates, minorities will experience job loss or a reduction in job quality resulting from privatization.

The Board can most effectively expedite this change by requesting external sources such as black educators, organizations designed for the betterment of blacks such as the National Association For The Advancement Of Colored People (NAACP) and executives in major private sector firms to network with county managers to develop methodologies to more expeditiously break down the sex and race barriers to professional and managerial private sector employment that has only recently begun to deteriorate. There is a need for awareness in Los Angeles County of this problem with emphasis placed on the fact that so called minorities are no longer in the minority and that all people of color must be fairly dealt with if productivity in the private and public sectors along with progress are to continue to move forward.

³ SUGGS, OP.CIT. P.21

⁴ SUGGS, OP.CIT. P.23

Recommendation 2

The Commission recommends that the Board of Supervisors instruct County management to more aggressively aid minorities and blacks who are particularly adversely impacted in obtaining employment both within County operations and the private sector where privatization has resulted in job displacement or loss of County employment to nullify job quality (**status, power, pay, fringe benefits, security, and promotional opportunities**) deterioration.

Discussion:

One of the most common effects of privatization is that the municipal work force decreases, and that the decrease negatively impacts minorities. This negative impact is found both in job quality (**status, power, pay, fringe benefits, security and promotional opportunities**)⁵ and in terms of job quantity (**the number of people**), minorities lose municipal positions that generally are not regained in the private sector.

Regarding job quality, public sector employment has also been shown by Robert Suggs to be better for minorities than employment in private enterprise. This is not only true for low paying jobs, but is true for administrative and professional jobs as well. If the County contracted entire functions including management and administration, the managerial and professional positions held by black men and women would most likely not be regained especially in terms of job quality.

Of eight cities recently studied by Robert Suggs, four of the cities with growing municipal employment (reflects expanding municipal employment only) reflected a moderately consistent growth in the number and percentage of blacks and hispanics employed as officials, administrators and professionals. On the contrary, the other four cities that had dwindling municipal employment (reflects shrinking municipal employment not related to privatization) reflected the opposite result as shown on **charts 3, 4, and 5.**

Traditionally, black female managers and professionals have been most disadvantaged relative to income and discrimination⁶. Therefore, it is not surprising that black females (**see chart 7**) are almost three times as likely to be

⁵ SUGGS, OP.CIT. P.21

⁶ SUGGS, OP.CIT. P.21

employed in government as managers and professionals than white males are.

This is not to say that discrimination does not exist in government, but the vast majority of black males and females that held government positions in the past or are currently employed in government with seniority in excess of fifteen years or more originally sought out civil service employment to gain fairer opportunities in terms of achieving upward mobility, better pay and fringe benefits due to the civil service structure. However, government is far from a haven for blacks. Federal agency cutbacks early in the previous decade created a fifty percent greater rate of lay-offs for minority workers versus whites according to the March 14, 1988 issue of Business Week.

The intent of our recommendation is to ameliorate the chances for minorities and particularly blacks in obtaining other positions as a result of contracting in the County or outside the County commensurate with the status, pay, and fringe benefits that the employee(s) enjoyed in his/her previous County position. The Commission proposes more aggressive aid directed toward neutralizing job quality deterioration. We realize that on average private sector wages paid employees compared to government are higher for equivalent work. However, wages paid by companies that have and still are contracting with the County for custodial services are considerably less than wages paid by the County for similar work.

The consequences of restricting minorities in this respect may culminate in long term unemployment bringing about local income tax losses, and payments of unemployment compensation.

Recommendation 3

The Commission recommends that the Board of Supervisors instruct County management to persistently keep track of displaced and/or terminated permanent and temporary County employees in all cases, provide training and referral services to those employees terminated or discharged as a result of privatization, and insure that contractual terms and agreements regarding Proposition A contracts are adhered to.

Discussion:

The Board in 1983, adopted a policy statement to insure 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. Departments were required to certify among

5

other options that the contractor was requested to hire affected employees. Further, the contractor is obligated to offer any openings resulting from the contract to affected County employees prior to recruiting elsewhere.

County departments at this time do not maintain records or actively seek to determine the new status of employees that were displaced or loss their County job as a result of privatization.

In our 1987 "Report On Contracting Policy In Los Angeles County Government", the Board of Supervisors was advised that the effect for contracting housekeeping and custodial services for permanent County employees had been minimal. Additionally, the Board was informed that County officials do not track the impact of contracting on temporary County employees.

Although permanent County custodial employees have not been impacted to the same degree that temporary County custodial employees have been impacted, the impact for permanent County custodians as a result of privatization has been significant. This is primarily because there is no threat of actual job loss for permanent employees as opposed to temporary employees.

Our review has clarified that the negative impact experienced by permanent County custodial employees due to contracting is a loss of job quality as a result of being placed in other positions in lieu of lay off where they feel their productive capabilities in comparison with their past position is ineffectual.

The negative impact of the custodian temporary "NC" (non-competitive) employee is extremely prominent. This is true because the County does not maintain records of the new status of the terminated temporary "NC" custodians regardless of whether the employee opted to go with the contractor or not. According to interviews conducted with both past and present County custodial employees and current County professionals, the majority of the temporary custodian "NC" employees that were accepted by the contractor found themselves terminated after a brief period of employment with the contractor as well as not being prepared in terms of skills for alternative employment. The data suggest that contractors may not be earnest when accepting County temporary "NC" custodial employees, but rather provisionally appeasing County management who are understandingly more impressed with a contractor willing to accept employees that are losing their jobs as a result of their contracting efforts.

This action can be viewed as facilitating two already disturbing trends for minorities and blacks particularly. First, it can be viewed as contributing to the decline in the black male labor force participation, and secondly it can be viewed as aiding in the growth of the related increase in the numbers of black females that are head of households. For example, from 1970 to the middle of the last decade, "the proportion of prime age black men in the labor force dropped from seventy nine percent to seventy four percent, while the proportion of black families headed by women rose from twenty eight percent to forty three percent"⁷. This situation occurs most often because other minority groups often new to the country and with less skills are willing to work for lower wages. By far, the majority of these custodian employees that found themselves in this setting had held custodian "NC" (**non competitive**) positions for a number of years.

The intent of our recommendation is to establish an explicit system for use throughout the County to insure that impacted employees as a result of privatization are receiving training and referral services and that contractors are earnest when employees opt to go with them under the premise that they will have continued employment if they are fulfilling the duties and responsibilities of the job.

We recognize that privatization if properly contrived may reduce costs, but we also recognize that privatization can also cut jobs, earnings, and pensions of low-skilled minority workers who have few other options in the labor market.

Recommendation 4

The Commission recommends that the Board of Supervisors instruct the Chief Administrative Officer in conjunction with the Affirmative Action Compliance Officer to establish programs to enhance minority businesses by:

- Developing techniques to make performance bonding more easily available to companies that otherwise would not be able to obtain bonding necessary to bid on County service jobs.
- Enabling more small business minority firms to be more competitive when bidding for municipal contracts.
- Providing small minority firms an incentive to participate in the bidding process.
- Making minority businesses more aware of County procurement opportunities and making County agencies

⁷ WILLIAM B. JOHNSTON AND ARNOLD H. PACJER, WORKFORCE 2000 WORK AND WORKERS FOR THE 21ST CENTURY, P.90

More aware of the services available from minority businesses.

Discussion:

Contracting in Los Angeles County government has been and remains primarily limited to lower paid and less educated employees of black and other minority groups⁸.

Generally speaking, these County employees lack the know how, up front funding, and the ability to acquire a performance bond as bonding firms insist that those whose performance they guarantee have strong financial statements and a solid history along with the general skills necessary to set up and operate a business. However, there are minority companies that would bid on proposed County service contracts, but are often discouraged because of their inability to secure a performance bond.

In our 1987 "Report On Contracting Policy In Los Angeles County Government", we recommended that the Board direct the Chief Administrative Officer to develop and implement new contracting goals and programs that would identify areas for full privatization, expand the scope of contracting to the mission functions of County government, and to establish a clear priority on using contracting to improve County productivity through technology and organizational innovation. As this recommendation has not been fully implemented we continue to recommend this complete approach as well as stalwartly advocating requesting external sources such as the Private Industry Council in conjunction with the Joint Training Partnership Act (JTPA), Economic Development Corporation, Office of Minority Business Development and the Chamber of Commerce who are all in a position to assist the Board in creating new privatization initiatives to directly participate in the work of identifying high-potential areas. The Private Industry Council can be contacted through the County Department of Community and Senior Citizens Services.

If minorities businesses are to participate in municipal procurement, minority businesses require data and incentives to expand into new areas. Making minority businesses cognizant of municipal procurement opportunities, and making local government aware of the services that minority businesses could provide is integral for initiating minority business recruiting.

⁸ ECONOMY AND EFFICIENCY COMMISSION REPORT ON CONTRACTING POLICY IN LOS ANGELES COUNTY GOVERNMENT, P.46

Presently, minority businesses are not only small in size, but primarily consist of retail and personal service industries. These types of businesses are not suited to municipal service delivery contracting. Not only do these minority firms need to develop a new manner of operating, but also need to change their line of business. Those minority firms that have the proficiency to become municipal service providers must overcome several barriers including bonding that most municipalities require, and bureaucratic apathy regarding the slow payment of invoices for services performed for government. These barriers tend to eliminate minority participation in municipal privatization as minority firms are usually too new; require prompt payment upon receipt of their invoices; or are expanding into new businesses where their achievements are unknown.

As previously indicated there are approaches that Los Angeles County government can utilize to assist minority businesses into the arena of governmental privatization. Minority businesses could also be identified in the applicable area, and their capabilities determined and kept current. They could be better informed about the particulars of County procurement, and improved communications could be initiated such as a publication of a procurement newsletter. Verification that a minority actually owns the business should be confirmed, and background information on education and financial resources established. Physical inspections should be conducted to negate potential fraud⁹.

Financial resources are required if accomplishments are to be made, but involvement of minority businesses in municipal procurement activities may have indirect benefits such as growth of minority entrepreneurship opportunities, and a direct benefit of increasing competition that may lower costs.

Companies such as the Southern California Gas Company and the RTD have established programs to enable minorities and women to successfully compete for business opportunities. The RTD has established a "Disadvantaged Business Enterprise Program" (DBE) to make bonding available to organizations that would otherwise not have the resources to obtain bonding necessary to bid on various projects. A total of \$15 million acquired from the City of Los Angeles and the Los Angeles County Transportation Commission from tax payers funds was used to purchase from Cathay Bank and Capital Bank high yield bearing certificates of deposit at various maturities. Minority firms

⁹ VEASEY, R. LAWSON, AND CURTIS BARNETT, "MINORITY BUSINESS PARTICIPATION IN THE ARKANSAS STATE PURCHASING PROCESS: PERCEPTIONS PF ARKANSAS MINORITY VENDORS", STATE AND LOCAL GOVERNMENT REVIEW, XII:3, (FALL 1990), P.145-146

who have been declined a performance bond at three standard bonding companies are then eligible to obtain bonding through the RTD who is the custodian of the funds providing the company was named as low bidder on the prime contractor's work. This not only provides an avenue for minority businesses to obtain performance bonding, but also provides a means for the minority firm to establish itself (develop a track record) providing the firm performs adequately for acquisition of future performance bonds by established bonding companies.

As previously stated the Southern California Gas Company has established a program for women and minority-owned businesses (WMBE) with one of its objectives being to increase the opportunities for small, ethnic-owned or women-owned businesses to participate in the company's purchasing and contracting activities. The purpose of the program is to increase WMBE participation in the supply of goods and services to the company in a manner cost effective to customers.

Our review revealed that surrounding counties differed in their bonding requirements for service contracts. San Diego County, for example, has required a performance bond on only three facilities yet indicated that 75% to 80% of their custodial contracts are with minority firms.

San Bernardino County requires \$500,000 liability insurance for some contract services yet 80% to 90% of their contractors are minority owned firms. County officials attribute their high level of minority participation for contract services to a number of factors. One being very prompt payment for services to aid small businesses in terms of cash flow. Another is that County personnel meet with minority contractors to aid them in the bidding process by exhibiting to them what occurred in previous bids relative to meeting the County's requirements, and finally by advising them to determine what the cost will be to obtain the required liability insurance which can then be added to the bid price. Regarding the latter, this information would be stated in the bid and may read as follows: The cost of the liability insurance is included in the bid price for the work.

Riverside County does not require a performance bond for service contracts, but does require \$1,000,000 in liability insurance. We were advised that the County has just one custodian contract with a non-minority contractor, and that the same company is contracted with repeatedly as it is the only company that has been able to meet the liability insurance requirement. Ventura County requires a performance bond, yet the four custodial contracts it has are all with minority contractors.

The intent of this recommendation is to focus the County's effort on developing programs to reduce or eliminate performance bond requirements for service contracts and to accentuate the fact that programs intended to increase minority participation in government require the highest level of political commitment and sufficient budgetary resources.

George G. Varela, a consultant to Mission Viejo and other southern California cities commented in the January 1990 issue of Governing Magazine in his article "Too Few Minorities In Top Jobs? The Merit System May Be To Blame" that often minority individuals begin their municipal careers in an ethnic organizational culture. Even after many years of success, they find that attaining a higher position with a diverse population presents a complication that often precludes advancement. The difficulty that confronts them is that their experience in an ethnic organizational culture such as the old Building Services Department in Los Angeles County is somehow considered invalid; therefore, they are advised that "they don't fit the profile". Our review disclosed that many black professionals presently employed with the County and black professionals that have left County service as a result of privatization or the 1985 consolidation of the old Building Services Department verbalized this sentiment.

Colwill (1987) backs up this conviction with her statement that minorities are viewed as unfit in certain job assignments, particularly managerial positions. Additionally, in the January 18, 1988 issue of Fortune it was stated that for blacks, while outright bigotry is rare, there is the "widespread presumption that blacks can't perform as well as whites".

Of the black managers that have in any way been impacted by contracting or the 1985 consolidation of the old Building Services Department, we know of only one prior employee who established a successful business.

Recommendation 5

The Commission recommends that the Board of Supervisors instruct County department heads to place any filled temporary "NC" employee either on a permanent County line item position or another temporary line item position that provides for County fringe benefits. This recommendation would apply to all filled temporary "NC" line item positions where the incumbent has been on the temporary "NC" line item position

in excess of twelve continuous months of full-time service without the approval of the Director of Personnel¹⁰.

Discussion:

Our review revealed that since the early 1980 decade, permanent custodian employee positions have been, at the instruction of the Chief Administrative Officer, back-filled with temporary "NC" positions. This action has abetted the County's efforts in keeping the cost of custodial services at a minimum, but has also served to lower the morale of these temporary "NC" County employees some of which have been on temporary "NC" position items in excess of eight years. Our review further denotes that this activity has negatively impacted temporary custodial "NC" employees by providing a false sense of job security and value as a County employee.

Traditionally, low level and low skilled workers have been prime candidates for privatization in Los Angeles County government; therefore, temporary custodian "NC" employees present no difficulty regarding the County's contracting efforts since they have no exact or implied rights.

Our review disclosed that the County has not in the past advised temporary custodian "NC" employees well in advance of proposed upcoming privatization efforts. If such a provision existed, it would have provided the employee ample time to seek new employment or make other personal adjustments necessary to counter complications that the immediate loss of employment could produce.

Morale suffers and employee productivity decreases when employees must constantly live in fear of being displaced or terminated due to privatization. This becomes especially difficult for temporary "NC" positions where no benefits are provided and job loss due to contracting is a certainty unless the employee opts to go with the contractor where wages are almost always lower (in Los Angeles) and longevity with the contractor is extremely doubtful.

County custodial employees on temporary "NC" line items positions are advised at the time of accepting the position that the job could terminate at any time. Furthermore, Civil Service Rule Thirteen provides for temporary appointments to continue for no longer than twelve months of continuous, full time service except with the approval of the Director of Personnel, persons may be employed in the same position for

¹⁰ DIRECTOR OF PERSONNEL IS THE COUNTY CHIEF ADMINISTRATIVE OFFICER

an additional specified time period upon written presentation of facts to justify an extension.

Our review has revealed that many custodian "NC" positions have been on the County's payroll for as long as ten years. Additionally, our review disclosed that initially custodian "NC" positions were laid off for one day then rehired to comply with Civil Service Rule Thirteen; however, more recently custodian "NC" employees have worked full time continuously for a number of years despite Civil Service Rule Thirteen. At LAC-USC Medical Center in the Environmental Services Division, 90% to 95% of approximately 179 custodian "NC" employees that have been employed as a custodian "NC" eight to ten years have never been laid off to comply with Civil Service Rule Thirteen.

We researched the background of Civil Service Rule Thirteen to determine its intent/why the rule was established. Mr. Blame Meek who in 1979-81 and 1984-87 was the attorney for the coalition of County unions during both negotiations over the modifications of County civil service rules, advised the Task Force that the intent of Civil Service Rule 13.01 is to prevent the County from hiring a temporary employee when the County could hire a permanent employee instead; or when the work to be accomplished is of a short term duration; or when the County could not hire an employee with the required skill on either a recurrent or permanent basis. Civil Service Rule Thirteen is reflected in appendix "A". We submit that based on the foregoing comments that Civil Service Rule Thirteen has been abused.

Based on the employee's perspective, being a temporary "NC" employee for many years of continuous employment provides a sense of being valued and a feeling that a future exist in County service. Many of these long time custodian "NC" employees have incurred debts commensurate with their salaries, purchased homes and are providing higher education for their children. A sudden loss of their County jobs after so many years of service can be devastating mentally and for the custodian "NC" financially as well. Management's perspective of the temporary "NC" item position may be viewed as a means of reducing cost (temporary "NC" item positions receive no County benefits) until privatization of the item positions can be accomplished.

In discussing the use of temporary employees with surrounding counties we found that San Bernardino County did not hire temporary positions but used an agency for temporary services only on an emergent basis. Ventura County hires temporary employees that have no benefits, but they are kept on the payroll less than eight weeks. San Diego County utilizes temporary employees on an emergent basis only and they are

acquired from an agency. Riverside County also utilizes temporary employees but only at their mental health facility and they are also acquired from an agency.

Our review disclosed that permanent custodian employees do not necessarily feel a threat of job loss due to privatization, but feel they could be placed in a job less rewarding in terms of quality. They feel their experience as custodians has served to enhance their productivity capabilities in custodial work as opposed to another class of position they may be offered in lieu of lay off.

The intent of our recommendation is to establish a sense of fairness in the minds of both permanent and temporary employees regarding privatization. This will not only increase morale, but if employees are advised well in advance that their job is being considered for privatization the employee has ample time to look for another job and or make arrangements to nullify other personal difficulties that the immediate loss of employment may generate.

Recommendation 6

The Commission recommends that the Board of Supervisors instruct County management to compare their service delivery costs and their methods of developing the costs to other large municipalities and large private firms that provide similar service and report the results of the comparisons to the Chief Administrative Officer to:

- Determine if the department's service is produced efficiently as would be reflected by low absenteeism, employees taking shorter vacations, informal lines of communications, a younger non-unionized work force, and service delivers responsible for equipment maintenance.
- Attempt to modify departmental operations to more closely emulate the efficient producer if departmental operations are determined to be inefficient.

Discussion:

Most available research on the subject of cost savings resulting from municipal contracting do not accredit the saving fully due to differences in wages paid by contractors as compared to municipal agencies, but to the private sector's efficient use of labor. Robert Suggs in his book "Minorities And Privatization Economic Mobility At Risk" commented that "fundamental to the strategy of privatization is the comparison of all relevant cost". Barbara J. Stevens in her article "Comparing Public - And Private - Sector Productive Efficiency: An Analysis Of Eight Activities" discussed what

she considered these efficient uses of labor factors are namely:

- Contractors work more days per year than do employees of most municipal agencies.
- Contractors tend to use part-time labor whenever possible.
- Contractors are likely to use the least qualified personnel capable of performing the job.
- Contractors are likely to require that the manager of service delivery be responsible for equipment maintenance as well as worker activities
- Contractors are more likely to give authority of hiring and terminating workers to their first line supervisors.
- Contractors seem to have more worker turnover than municipal agencies which is indicated by a younger work force. **(See chart 8)**

In Barbara J. Stevens' report conducted for the U.S. Department of Housing and Urban Development in 1984, she demonstrated through multiple regression analysis relating total costs to the following three sets of variables encompassing five factors that wages paid by contractors on average are irrelevant to lower costs for identical services performed by contractors **(see chart 9)**:

- The scale of output and the level of service provided and the physical conditions under which service is provided.
- The organizational arrangement for service delivery contract or municipal.
- Quality of service delivery.

It should be noted that the above five factors are treated as independent factors in estimating the total costs equation **(see tables 3 and 4)**.

Ms. Stevens also indicates that the factors that distinguish an efficient municipality from a non-efficient municipality are:

- Low absenteeism
- Shorter vacations
- The service deliverer being responsible for equipment maintenance
- Informal lines of communications
- Younger non-unionized work force

Additionally, Ms. Stevens commented that due to a lack of a standard of reference for comparing costs, the problem of finding the necessary time to discuss comparisons with comparable governmental agencies (comparisons with Los Angeles

County would have to be made with a federal agency or another State) and the differences in budgetary customary practices which requires detailed on-site cost analysis, most municipalities are not cognizant whether for a particular service they are efficient or inefficient in its delivery.

Since the County in the past has compared savings strictly on wages paid to the contractors bid price, a proper cost factor for various services may not be available.

The intent of our recommendation is to strongly suggest that if municipal agencies can cultivate the practices of the private sector, privatization of public services may not be necessary. The action that we recommend will readily determine if County departments are efficient in their operations or if changes are necessary whether privatization results or not. Our research has indicated that some municipalities can not adopt or are unwilling to adopt the changes necessary to bring about an efficient operation; therefore, in such situations privatization would be the only alternative if costs are to be reduced.

Recommendation 7

The Commission recommends that the Board of Supervisors instruct County department heads that are considering privatization as an alternative to County provided services to conduct a more rigid, careful, and thorough cost effective evaluation to determine if contracted services should be used so that:

- All available and appropriate costs that should properly be considered in the County's computation of the services costs is included.
- More accurate comparisons can be made in terms of the County's cost for performing a service versus proposed bid costs.

Discussion:

Monitoring and overhead charges are normal charges that impact the costs associated with municipal privatization. However, there are other hidden costs that are seldom discussed that could have a major influence on municipal privatizing in Los Angeles County if their costs were known. These costs among others include severance, welfare, medical, learning (costs in terms of time associated in acquiring the knowledge or skill necessary to work effectively with new methodologies), and family dissolution.

All the costs mentioned above would have an impact on Los Angeles County's contracting program if the County contracted out entire functions as opposed to small low level sections

16

of various County operations. Yet, even contracting in the manner that the County has chosen leaves welfare, medical, learning, and family dissolution costs totally unknown. Properly implemented to foster competition, privatization still remains a two-edged sword. It may indeed cut cost, but it can cut the jobs, earnings, and pensions of low skilled minority workers too¹¹. Therefore, it is quite true that fundamental to the strategy of privatization is the comparison of all relevant costs, and any assessment of the advantages and disadvantages of privatization must also include social costs of possible adverse consequences for minorities¹².

In discussions with the Auditor regarding the dollar amounts reflected on the "Checklist For Contract Award", we questioned the Auditor regarding whether an employee's costs should be added to the County's cost number if an employee displaced due to contracting was not relocated to a position previously scheduled to be filled? The Auditor indicated that this action could be attributable to the department's desire to avoid layoff(s) of the employee(s). We concur with the Auditor's comment, but we firmly believe that the cost of placing employees in positions that would not have been filled should be properly added to the County's cost for the contracted activity.

Our review has clearly shown that displaced employees are relocated to areas where no position was scheduled to be filled and often where the displaced employee is not needed. This action immediately points out two negatives. Firstly, it evidences that cost savings may not be accurate, and secondly it demonstrates that job quality can be diminished as a result of contracting. We have been advised that in many instances displaced and relocated employees often have nothing to do in terms of work so they simply collect a pay check.

During our review we also randomly checked a few contract awards regarding the number of employees that were said to be avoided. In at least one situation we found the avoided personnel numbers to differ when we questioned the current departmental official that at the time of the contract award was in charge of the facility. This condition could easily skew the numbers that the Board of Supervisors receives for contracting considerations and again evidences that cost savings may be questionable.

¹¹ SUGGS, OP.CIT. P.48

¹² SUGGS, OP.CIT. P.47

The intent of our recommendation is to provide the Board of Supervisors with continually accurate and comprehensive

17

information concerning what is being contracted, and to what effect. As we expressed in our 1987 report on contracting, policy decision making for Proposition A contracting is highly decentralized; therefore, department heads must demonstrate affective leadership in managing their contracting efforts.

Recommendation 8

The Commission recommends that the Board of Supervisors appropriate funds for re-training displaced County permanent and temporary employees that result from privatization and that the allocated funds not be required to be repaid by the contracting County agency to insure that:

- County departments aggressively seek to retrain displaced County permanent and temporary employees.

Discussion:

In 1981, the Board of Supervisors adopted a policy to reserve 5% of the savings from contracting for retraining of employees whose jobs would be eliminated as a result of privatization and other causes. Further, 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. When our "Report On Contracting Policy In Los Angeles County Government" was completed in August of 1987, less than 5% of the savings from contracting had been appropriated and little had been utilized. Although the Commission was advised that the Board was made aware of this condition, we believe this to be counter productive to the Board's objective. Repayment of funds by County departments designated for retraining displaced County workers has the effect of deducting from departmental savings resulting from contracting, thereby repressing the incentive to contract.

Since municipal contracting is performed to reduce governmental cost by eliminating positions and by securing lower costs for services, simple reassignment of personnel to jobs which also could be contracted does not reduce the County work force; therefore, savings through the use of proposition A contracting without a reduction in County personnel amounts to cost avoidance.

In the June 4, 1990 issue of the "City & State Newspaper" it was stated that Los Angeles County now annually awards \$190.1 million in private contracts that save an estimated \$41.8

million per year. If this is indeed true, a total of approximately \$4.1 million would have been available for retraining purposes for fiscal years 88-89 and 89-90.

However, our study revealed that as a result of the Board's policy adopted in 1981 to reserve five percent of the savings

18

from contracting for retraining County employees whose jobs were eliminated due to contracting and other causes, and to the Board's adopted motion in 1982 directing the County to set aside five percent of the net savings from contracting for retraining affected permanent employees a type of revolving fund was established by the Chief Administrative Officer, but utilization of the fund has required repayment by the user department. Our understanding is that the fund was not used by any County department in 1988 or 1989.

We were advised by a departmental executive that training funds have been requested to the top level of the executive's Department. However, the executive was unsure if the request had gone to the Chief Administrative Office, but we were informed that no funds were ever received. The fact that training funds were not received by one County department, brings up questions regarding the retraining of the positions that were displaced of the 4,691 positions that the June 4, 1990 issue of the "City & State Newspaper" (out of Chicago Illinois published biweekly by Dan Miller, Crane Communications Inc.) indicates were avoided or eliminated during the ten years prior to June 1990.

The intent of our recommendation is to reduce the emotional and or financial impact on displaced minority employees. Although the displaced employee may no longer enjoy employment in the job that is most rewarding to the employee, retraining could provide an avenue of continued employment and possibly at the same or even higher pay rate. We realize that since an important goal of privatization is to reduce costs, most governments are averse to expend funds on programs for employees affected by privatization. However, training could not only aid the employee in overcoming the fear of displacement, and the unknown in terms of future employment but could help maintain the family union that so often breaks down in minority households resulting from unemployment or financial difficulties.