



MEMORANDUM

TO: Board of Supervisors

FROM: Todd Rydstrom
Director of Budget & Analysis
Controller's Office

DATE: May 13, 2005

SUBJECT: Controller's Annual Report on Contracting Out

Administrative Code Section 2.16 requires that the Controller report by May 15 each year regarding 1) the number and types of contracts that have been approved for the prior year under Charter Section 10.104(15), 2) how long each affected service has been contracted out, 3) the cost savings as realized for each contract, and 4) how many new contracts have been submitted for certification.

BACKGROUND

Under the provisions of the City Charter Section 10.104, employees of the City and County are appointed through competitive civil service selection with exceptions being listed in nineteen specific categories. Subsection 15 of this provision is known as "Prop J" contracting, taking its name from Proposition J in the November 1983 election. This exception authorizes outside contracting of existing services, whenever a service can be performed by private contract at a cost lower than the same service performed by civil servants. The authorization is obtained by having the Controller determine that positions performing the service are less expensive when provided through contracting out than if performed through civil service. The Board of Supervisors then may adopt this determination through a resolution authorizing the department to contract for the services. This process is required on an annual basis.

SCOPE OF "PROP J" CONTRACTS

To provide a high-level review of Prop J contracting, we have summarized the proposals that we analyzed over the last three years for each department, as well as indicating those proposals which received Board approval. We have also analyzed impact both in terms of service and cost savings.

To date through Fiscal Year 2004-05, 23 contracts were analyzed and 20 contracts were approved by the Board with a total cost of \$69 million for services that are subject to Prop J approval. By contracting for these services the estimated savings is \$23.2 million. The attached summaries also include a list of contract services for which departments did not submit Prop J

certification requests. It is estimated that the cost of these services for which Prop J certifications have not yet submitted is approximately \$12-\$15 million.

SERVICE PROVIDED THROUGH “PROP J” CONTRACTS

In Fiscal Year 2004-05, the services provided through approved Prop J contracts are equivalent to approximately 1,307 full time positions. Services that are contracted out fall into the following categories:

➤ Transportation	445 positions
➤ Parking and Towing	355 positions
➤ Convention Management	242 positions
➤ Security Services	94 positions
➤ Management Information	74 positions
➤ Other Services	<u>97 positions</u>
➤ Total	1,307 positions

SUMMARY OF ESTIMATED SAVINGS

In each of the past three fiscal years the Board has approved contracting out resulting in estimated savings of up to \$23.2 million in FY 2004-05, \$17.9 million in FY 2003-04 and \$19.3 million in FY 2002-03. During this three-year period, some additional Prop J requests were either disapproved by the Board or withdrawn by the department. The Controller has determined that these proposals would have resulted in savings of \$11.5 million FY 2004-05, \$0.2 million in FY 2003-04 and \$2.4 million in FY 2002-03.

The attached summaries also include a list of departments who have contracted out for services that should have received Prop J determinations, but did not submit requests for Prop J certification as required. These departments were contacted regarding this annual requirement. A letter notifying the departments that they are out of compliance with the requirements of Article III, Section 2.15 of the Administrative Code has been sent to each of these departments.

The supporting schedules are attached for your review and consideration. If you have any further questions, please contact me at your earliest convenience.

Attachments: 1) Prop J Certifications, FY 2004–2005
2) Prop J Certifications, FY 2003–2004
3) Prop J Certifications, FY 2002–2003