



City of Seattle

Office of City Auditor

Date: November 8, 2010

To: Seattle City Councilmember Bruce Harrell

From: David Jones, City Auditor

Re: Comparing Seattle City Light Employee Costs to Contract Employee Costs

In response to a request received from representatives of the International Federation of Professional and Technical Engineers Local #17, AFL-CIO (Local 17), you asked the Office of City Auditor to compare the cost of Seattle City Light employees' work to the cost of using consultant contracts to do equivalent work. We reviewed 71 contracts and found ten contracts where employees perform comparable work. For these 10 contracts, we found the hourly cost for work by City Light in-house employees was generally, but not always, less than the hourly cost for equivalent contract employees. Seattle City Light and Local 17 provided formal written comments on a draft of this report. Those comments are found in Appendices A and B.

Scope and Methodology

The scope for this project was limited to comparing the hourly cost of a City employee's work with the hourly cost of equivalent work performed by a consultant. We reviewed 71 City Light consultant contracts: 70 that were active in 2009, and one from 2010. Local 17 representatives suggested we include some of these contracts, and we identified others through interviews with City of Seattle (City) staff. To determine which of the 71 contracts included work equivalent to the duties of City Light employees, we consulted a Local 17 representative and interviewed City Light managers, supervisors, and staff in the units responsible for the contracted work. As a result of the interviews, we concluded that 10 of the 71 consultant contracts included work equivalent to work performed by City Light employees in a manner that allowed direct comparison. The other 61 contracts were for work not typically performed by City Light employees, or for work that included features that made direct comparison difficult. See Table 1 below for a description of the project scopes for these ten contracts and the title for the City position doing equivalent work.

For two of the contracts the consultant provided a team of employees from varied disciplines. In these cases we only analyzed the pay of consultant-team employees who were performing work equivalent to City employees. We did not attempt to determine what it would cost the City to assemble equivalent teams of in-house employees. For comparing the cost of equivalent workers we included the fully loaded employee costs¹, including a City Light employee's hourly wage, the labor burden for each employee, and City Light's general overhead averaged across all City Light employees. This overhead (ranging from \$28 per employee hour to \$32 per employee hour) includes many of City

¹ For the City, the fully loaded cost includes labor burden (the cost of paid leave, other paid benefits, and FICA/medical/unemployment) and overhead costs, which range from \$28 to \$32 per hour. For private consultants fully loaded costs include labor burden, overhead and profit.

Light’s fixed costs such as rent and building maintenance, and also City Light’s share of City of Seattle general allocated costs. When hiring a small number of employees, City Light would not incur this full cost for each new employee; by adding to the number of employees factored into this cost, a new employee would slightly diminish the average cost. The consultant’s rate was taken from the contracts, each of which stated a fully-loaded hourly charge per employee.

Table 1. Ten City Light Contracts with Work Comparable to City Employee Positions	
Scope of Contract	Comparable City Position
1. Information technology (IT) application design, development and documentation in support of business requirements for geospatial asset mapping: design, test, debug, and modify existing asset and geospatial data related to programming routines; analyze processes used to identify and migrate data between systems; troubleshoot, and train users.	IT-B
2. Civil engineering work for peak workload (2008)	Civil Engineer
3. Develop software for the Lifecycle Asset Management Program (LAMP). Design and develop data model and data structures for maintaining inventory and assets as specified in the LAMP program.	IT-B
4. IT program manager responsible for multiple sub-projects under the Work and Asset Management System/Outage Management System (WAMS/OMS) implementation project; may include initiating and managing procurement and vendor management processes. Transfer knowledge to City Light employees. Document project to support audit and governance demands.	IT-A
5. Database development for Network Engineering Data Management System (NEDMS), data cleanup, knowledge transfer and support.	IT-B
6. Transmission tower inspection and structural engineering (2010)	Civil Engineer
7. IT program manager	IT-A or Executive
8. Engineering work for underwater tunnel	Civil Engineer
9. Capital project management at distant site	Capital Project Coordinator
10. Engineering work as needed (on call)	Civil Engineer

City Light officials provided several reasons why the work described in Table I could not be performed by in-house staff, including:

- Qualified City Light employees were fully engaged with other work and would have been unable to complete urgent new work by the established deadline;
- Several limited-time projects required assembling a large team with diverse skills that would be disbanded upon project completion.² While City Light may have had employees that

² The value of having such a team available on short notice is not reflected in the comparison we provide of hourly wage rates for individual team members whose skills and duties may match those of City Light employees.

performed work equivalent to one or more members of these consultant teams, City Light management stated “City Light receives value for the work a consultant does to assemble, manage and then disband a specific team to perform the work and deliver a final product.”

- City Light was unable to attract an employee with the required skill set for time-sensitive work, despite advertising the opening for more than a year.
- A two-year project was located at a remote site where it was cost-effective to contract with a qualified professional who lived near the project rather than pay travel and per diem costs for a Seattle-area employee.

General Conclusions

Fully loaded hourly rates for City employees were generally lower than the fully loaded hourly consultant rates for the ten contracts we reviewed

Both the consultants in our sample and the City compensate their employees at different rates of pay depending on where the employee falls within a particular job category. For example, engineers may be compensated differently, depending on their qualifications, experience, and level of responsibility. The same is true for project managers or information technology software developers. Table 2 compares the bottom and top of the entire pay range for the ten comparable job categories we reviewed, based on fully loaded pay scales for City workers (including benefits and general overhead), and including profit for consultants. The highest value in each row is highlighted in green.

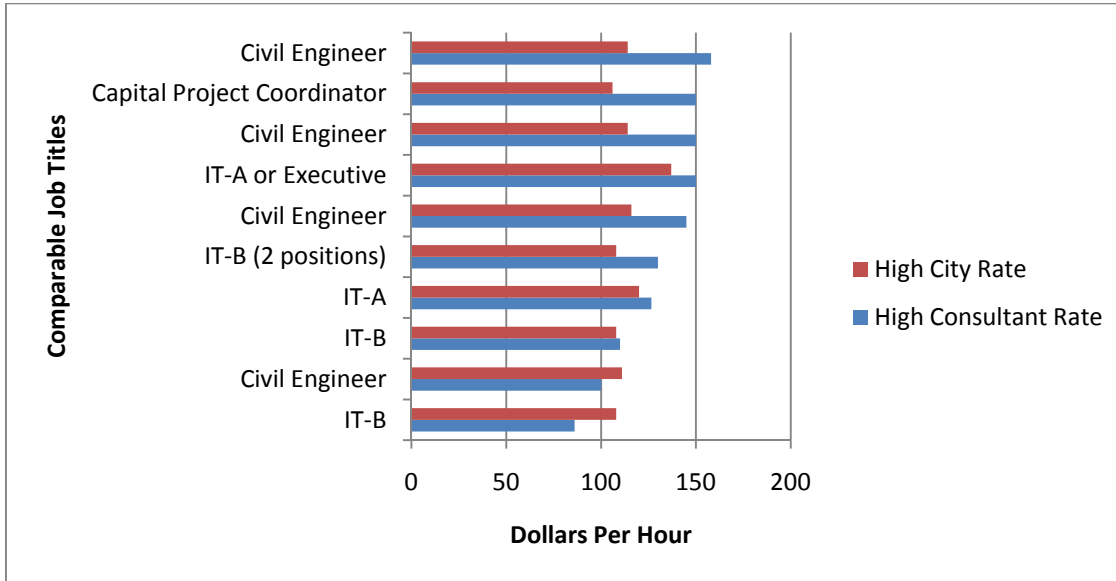
Table 2. Comparison of Fully Loaded Consultant Hourly Rate to Fully Loaded City Rate (2009 City and consultant rates unless otherwise noted)				
Comparable City Position Title	Consultant Rate		City Rate	
	Low	High	Low	High
IT-B	*	\$86	\$81	\$108
Civil Engineer (2008 rates)	*	\$100	\$82	\$111
IT-B	*	\$110	\$81	\$108
IT-A	*	\$127	\$89	\$120
IT-B	*	\$130	\$81	\$108
Civil Engineer (2010 rates)	\$88	\$145	\$86	\$116
IT-A or Executive	*	\$150	\$89	\$137
Civil Engineer	\$97	\$150	\$85	\$114
Capital Project Coordinator	*	\$150	\$82	\$106
Civil Engineer	\$74	\$158	\$85	\$114

*For these contracts the consultant billed at one rate, with no range.

As Table 2 reveals, the total hourly rate for consultants falls within the range of the total hourly rates for City employees for two of the ten contracts we reviewed. For the other eight contracts, the consultant high rate is higher than the high end of the City’s in-house rate by an amount ranging from

2 to 39 percent of the City’s rate. Chart 1 below compares the highest hourly rates for the City and the consultants.

Chart 1. City-Consultant Comparison for Fully Loaded Costs at Highest Rate



Consultants’ hourly wages are sometimes lower, sometimes higher than the City’s

For six contracts we were able to determine the hourly wage paid to the consultant’s employee(s) for work comparable to City employee work. Table 3 below compares the hourly wages of contract employees with City Light employees, without including labor burden, overhead, or consultant’s profit. The highest value in each row is highlighted in green.

Type of Work	Consultant Wage (or range)		City Wage (range)	
	Low	High	Low	High
IT Application Design	*	\$36	\$33	\$49
IT Project Management	*	\$100	\$38	\$65
Civil Engineering	\$25	\$60	\$32	\$55
Capital Project Management	*	\$48	\$31	\$46
Civil Engineering (2010)	\$32	\$46	\$33	\$52
Civil Engineering	\$26	\$55	\$32	\$51

*For these contracts the consultant billed at one rate, with no range.

The City’s hourly overtime costs were less than consultant hourly costs in all but one contract

An additional consideration when comparing fully-loaded City costs to consultant costs is that if City employees are fully engaged, and no other qualified City staff are available to do the work, the City has three choices:

1. Hire one or more additional City employees,
2. Hire a consultant in the short-term, or
3. Pay existing City employees overtime.

Comparing the City’s overtime rate to a consultant’s regular rate, the City’s high-end rate is lower than the consultant rate in all but one contract because the City pays less labor burden on overtime hours than on regular hours, and for certain professional positions employees work overtime without additional compensation beyond 40 hours in a week³. In all but one contract the consultant’s rate remained constant regardless of the hours worked by an individual employee. One contract provided an overtime rate. The highest value in each row is highlighted in green.

Table 4. Comparison of Fully Loaded Consultant Hourly Rate to Fully Loaded City Overtime Rate				
(2009 City and consultant rates unless otherwise noted)				
Comparable City Position Title	Consultant Rate		City Overtime Rate	
	Low	High	Low	High
ITB	*	\$86	\$81	\$108
Civil Engineer (2008 rates)	*	\$121	\$82	\$108
ITB	*	\$110	\$81	\$108
ITA	*	\$127	\$0**	\$0**
ITB	*	\$130	\$89	\$98
ITA or Executive	*	\$150	\$0**	\$0**
Civil Engineer	\$97	\$150	\$84	\$114
Capital Project Coordinator	*	\$150	\$81	\$106
Civil Engineer	\$88	\$145	\$84	\$114
Civil Engineer	\$74	\$158	\$84	\$114

*For these contracts the consultant billed at one rate, with no range.

**IT-A and Officer positions are paid a salary, and are not given additional pay when they work more than 40 hours in a pay period.

³ The City labor burden for regular time includes paid leave, other paid benefits, and FICA/Medicare/unemployment. For overtime hours the City only pays 7.65 percent FICA, with no costs for paid leave or other benefits.

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Memorandum



Date: October 27, 2010

To: David Jones, City Auditor

From: Philip Leiber, Chief Financial Officer, Seattle City Light

Subject: City Light Response to Office of City Auditor letter regarding
"Seattle City Light Employee Costs Compared to Contract Employee Costs"

Thank you for the opportunity to review the letter ("Letter") your office produced in response to a request received from the International Federation of Profession and Technical Engineers Local #17, AFL-CIO.

City Light accomplishes the vast majority of its work through its experienced and dedicated employees.

As noted in your letter, however, there are times when outside resources are used, including:

- When qualified employees are not available due to the emergency nature of the work and an urgent deadline;
- When a project needs skills only for a specific time period which would require laying off individuals when the project is completed;
- The nature of the work is not ongoing, but only infrequently arises;
- When City Light has been unable to fill a position but work needs to be completed in a specified time frame.

In many cases, the first place that City Light looks to for supplemental staffing resources is the City's Temporary Employment Services (TES) program, and such supplemental staff are paid the same wage rates as permanent City Light employees for their work. TES resources are not available for all work requirements that City Light faces, so at times consultants and contractors are also retained.

City Light appreciates that the Letter highlights that the significant majority (86%) of the contracts your office reviewed (61 out of 71) were for work not typically performed by City Light employees, or for work that included features that made direct comparison difficult. Accordingly, concerns about using contractors for this work were not raised.

For the other 14% (10 contracts) for which consultant costs were compared to City employees, City Light offers the following comments on the Letter:

- The Letter states that only specific positions in the remaining contracts were examined rather than the costs for entire teams, but without such consideration, it is not possible to conclude that the overall work performed by the team could have been performed in-house for a lower cost;

- The Letter does not include information about whether City Light, with the staffing levels available, had the capacity to perform the work;
 - In 2009 and 2010, City Light was required to maintain very high position vacancy rates, despite increasing demand for services in many areas, thereby limiting the Utility’s options to complete work with internal staff;
 - In 2010 and in the 2011/12 proposed budgets, there has been pressure to reduce the number of budgeted and funded positions, without the acceptance of lower service levels that such reductions would entail.
- While at a high level, work performed by contractors may appear comparable to that performed by titles held by City Light employees, work contracted out may differ in two respects:
 - In the case of certain IT projects, City Light contracted less strategic, one-time project work, so the limited number of City Light staff could focus on more strategic high value projects where possible.
 - Consultants/contractors may be used to fill needs where City Light employee skill gaps exist. This has been exacerbated by significant reductions in the City Light travel and training budgets that have limited our ability to develop internal staff with all required skills.
- The Letter does not address the constraints that exist with respect to using employees to perform additional work on an overtime basis, including: (1) City Light was directed by Council to limit overtime expenditures, and reduced overtime expenditures by \$5 million to comply with that direction in recent years. Overtime expenditures continued to be a Council focus in 2010 and in deliberations related to the 2011/2012 budget; (2) 2010 furloughs imposed new barriers to having employees work overtime hours; (3) the willingness of employees in the positions examined to perform overtime work; (4) potential impacts on productivity and effectiveness even should the employees be willing to work overtime; (5) work and project deadlines that require concentrated additional resources in a limited timeframe rather than incremental efforts by employees with other responsibilities over an extended period.

In light of these factors, we do not believe that the Letter provides sufficient information to conclude that City Light inappropriately used contractors rather than its own employees even in the circumstances where the consultant rates may have been somewhat higher than employee wage rates. While the Letter does not explicitly draw this conclusion, we believe that the information in Tables 2-4 of the Letter could lead the reader to that conclusion if read without due consideration of the factors noted above.

City Light is committed to using ratepayer funds in a cost effective manner to provide the service levels customer require. As has been the case, this means using our talented employees to accomplish most of the work we face, but also using consultants and contractors where appropriate to supplement their efforts and deliver the value and responsiveness our customers require.

cc: Jorge Carrasco
DaVonna Johnson



November 3, 2010

David Jones, City Auditor
 Office of the City Auditor
 700 Fifth Avenue, Suite 2410
 P.O. Box 94729
 Seattle WA 98124-4729

RE: Seattle City Light Employee Costs Compared to Contract Employee Costs

Dear Mr. Jones:

On October 27, 2010, Local 17 was provided with a draft of the City Auditor's report on the comparative cost of contracting out work at Seattle City Light. We are impressed with the methodology employed and the clarity of the data presented, and wish to commend the Auditor's Office for this work. The following document provides Local 17's response to this draft report.

Scope of Contracts Selected

First, while we are pleased that the Auditor was able to identify a sufficient number of contracts that could be compared to work done by Local 17 members, we believe that 11 of 71 contracts is a low estimation of the amount of potential Local 17 work being contracted out by SCL. During initial consultations, Local 17 identified an additional 12 contracts beyond those included in the Auditor's report that could have been performed in-house. It is our position that SCL selects projects to be contracted too liberally, and the omission of these 12 contracts, assumedly due in part to SCL explanations to the auditor, illustrates our disagreement with the Department.

For instance, we believe that SCL may in some cases be able to have projects performed by staff in other City departments when staff is not available within SCL. Both the Department of Planning and Development and Seattle Public Utilities employ specialists who may be able to fill gaps in knowledge and staffing for City Light without having to pay high rates for outside consultants. By considering these opportunities, the Auditor may have been able to widen the scope of contracts considered to be comparable to City staff work.

Overtime Rates as Concluding Section

Secondly, while Local 17 commends the Auditor's report for its thoroughness in providing detail on comparative pay rates under different scenarios, we are concerned that the document's conclusion with overtime rates leaves the reader with the assumption that this is the most appropriate comparison of costs. As stated earlier in the report, paying existing employees overtime rates is only one option for reducing the amount of work contracted out, and it is likely that this would only be a

temporary solution as staffing levels are adjusted. Local 17's position has long been that the City should staff at a level appropriate to average workloads, rather than at low levels that assure a near-constant need for "peak-load" augmentation. If SCL implements a more reasonable level of staffing, overtime rates will be largely avoided, and thus regular wages will be the more relevant comparison between contractor and in-house costs.

Staff Time Used to Train Consultants

Thirdly, the Auditor's report does not include a discussion of the SCL staff time spent training and managing private consultants. While this may be difficult to quantify across contracts, it is our experience that the continuous cycle of new consultants in and out of SCL creates a considerable burden on staff that must assist these individuals as they train into their assignments. While hiring new City staff also incurs a training cost, these employees are likely to have far lower turnover compared with consultants that cycle between clients. Local 17 understands that a comparison of such costs falls outside the stated scope of the report, but we would like the reader to consider such costs as highly relevant to any overall cost comparisons.

Concluding Recommendations

Finally, we note that the audit does not include any specific recommendations for action. Since the primary finding of this report is that contracted work is more expensive than performing work in-house even compared to City overtime rates, we might expect that the Auditor's Office would recommend that SCL seeks to maximize the use of its own workforce to conduct projects. In light of these findings, it is our position that SCL should take concrete steps to minimize the use of expensive private contractors during this difficult budget period and plan for a more cost-effective staffing level into the future.

Again, Local 17 would like to congratulate the Auditor's Office on conducting a well researched and presented study of this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Elliot Levin", with a long horizontal flourish extending to the right.

Elliot Levin
IFPTE Local 17 Research Director

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