

October 18, 2017

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Attention: The Honorable Nury Martinez
Chairperson, Energy, Climate Change and Environmental Justice
Committee

Honorable Members:

Subject: Council File No. 16-0093-S1 – Los Angeles Department of Water and
Power Governance Issues/Charter and Administrative Code
Amendments/Contracting

On January 22, 2016, a motion (Fuentes-Wesson-O'Farrell CF 16-0093) was introduced relative to proposed amendments to the City Charter and Administrative Code relating to the Los Angeles Department of Water and Power (LADWP). The motion called on the City of Los Angeles (City) to "develop and adopt Charter amendments to restructure LADWP's governance system in order to increase oversight and transparency, reduce political interference from City Hall, and streamline departmental operations." The motion specified several categories of recommended changes to the City Charter, including changes to Charter provisions regarding the Board of Water and Power Commissioners (Board), the General Manager, Council approval and oversight of Board actions, Board access to independent analysis, LADWP hiring and personnel decisions and the LADWP transfer to the City's General Fund.

On February 19, 2016, the Rules, Elections, Intergovernmental Relations and Neighborhoods Committee (REIRN Committee) held its initial meeting to discuss the proposed Charter amendments and other reforms contained in the motion. The REIRN Committee then held a series of meetings, from March through May of 2016, at various locations across the City to solicit public input and further discuss proposed changes to the LADWP. The full City Council also discussed the matter at its meeting on May 17, 2016.

On June 2, 2016, the REIRN Committee met again to deliberate LADWP reform. At the conclusion of the meeting, the Committee adopted detailed recommendations for a Charter amendment, ordinance modifications, reports and numerous other actions related to governance, management, oversight and operations of the LADWP. In addition, the Committee requested and set forth specific recommendations that could be accomplished by a change in the charter and others that could be accomplished by ordinance.

On June 7, 2016, your Honorable Body adopted the REIRN Committee's recommendations, with four amendments, and issued detailed directions to the City Attorney's Office setting forth the elements of the proposed Charter amendment to submit to voters for their approval or rejection and the preparation of certain draft ordinances. Voters rejected the proposed Charter amendment. The identified contracting process changes that can be accomplished by ordinance are still necessary today to increase efficiencies at LADWP. The contracting process may be improved by the ordinance that had been prepared pursuant to City Council instructions and submitted to the City Council on October 13, 2016. The draft ordinance:

- 1) increases the authority of the LADWP General Manager to enter into certain contracts from the current amount of \$150,000 to a new amount of up to \$5 million;
- 2) establishes a requirement for quarterly reporting to the Board of Water and Power Commissioners and City Council of certain contracts, as well as posting requirements;
- 3) increases the authority of the Board of Water and Power Commissioners to enter into certain contracts without City Council's affirmative approval from the current maximum of three years to a new maximum of five years and up to ten years for specialized construction equipment or software that is offered by one vendor; and
- 4) allows LADWP to engage in Request for Proposals/Competitive Negotiations for the purchase of specialized equipment, using price and other evaluation factors.

To determine the cost savings and improved efficiencies, LADWP worked with the Chief Legislative Analyst and City Administrative Offices to analyze Board awarded contracts and agreements in 2015. It was determined that:

- LADWP's current procurement practices are inconsistent with the practices of other governmental organizations such as Sacramento Municipal Utility District (SMUD), Seattle City Light and LA Metro. SMUD delegates authority to the General Manager to sign contracts up to \$5 million for equipment, operational inventory and construction and maintenance services. Seattle City Light's General Manager signs all contracts \$250,000 and above. Increasing LADWP's General Manager's authority to enter into contracts from the current \$150,000 to \$5 million would be more efficient and effective by decreasing processing time from 58 to 17 business days. For example:
 - LADWP purchases directional flood lights for the Outdoor Area Lighting Program. The floodlights purchased improve evening illumination for homes, businesses and industry and are generally standard issue. To purchase approximately \$1.5 million of flood lights today, one must adhere to the Bid, Board Letter and Award Processing procedures, resulting in an approximate processing time of 55 to 58 days. If the General Manager had increased authority, the Board Letter processing time would be eliminated thereby decreasing the total processing time to 10 to 17 days. Similarly, LADWP is a member of a number of trade organizations. A few of those organizations base their annual dues on utility size. The current process doesn't allow the General Manager to simply pay the dues required in an efficient manner.
 - In 2015, 126 Board reports were prepared for the purchase of services and equipment. The timeframe for the preparation of these reports ranged from 60 days to as much as one year depending on the duration of the contracts. Of the 126 reports to the Board, 82 were for purchases that ranged from \$24,000 to \$4,810,000 for general services and equipment necessary for LADWP's operations. Again, increasing the General Manager's authority will reduce cost and increase efficiencies for specific routine purchases.
- Increasing the Board contract authority to five and in some instances ten years instead of the current term of three years would be more efficient and expedite construction/design/project management contracts associated with LADWP's capital improvement and infrastructure projects.
 - The current three year contract limit results in repetitive, non-value added administrative efforts. In order to avoid the lengthy Mayoral/City Council approval process that accompanies long term contracts, LADWP staff will work towards executing three year contracts for most products and services. This practice does not always result in the best pricing terms and often leads to a series of amendments to ensure continuation of products and services. The practice of excessive amendments adds another layer of inefficiency, higher costs and wasted time. A case in point:

- LADWP's water system purchases butterfly valves which are used in infrastructure projects. The size and space required for storage limits the number of valves that can be purchased and stored in three years. However, a longer term contract may yield better pricing and reduce storage constraints. Longer term contracts would provide more advantageous pricing relative to specialized purchases of single source parts, such as parts for cranes or other specific equipment (i.e. transformers).
- Increasing the Board's Authority to ten years relative to contracts for specialized equipment and software offered by one vendor would provide the best pricing terms with no breaks in service or product delivery. Simply being able to purchase 10 year software licenses expeditiously would result in a cost savings.
- Increasing the Board's authority would make it consistent with the Board of Public Works contracting authority of up to five years, without City Council approval, for construction, design and project management contracts associated with the City's capital improvement projects. The Administrative Code currently provides proprietary departments the authority to contract for a term of five years, without City Council approval, for franchise, concession agreements, licenses and leases.

In addition to increasing the General Manager and Board authorities, this ordinance would allow LADWP to acquire goods and services through a competitive sealed proposal procedure that may expand the criteria for determining award of contract to include other factors such as performance reliability, life cycle costs, delivery timetables, support logistics, manufacturer's warranty, etc. instead of just lowest cost.

Once the ordinance is approved there will be continued oversight of LADWP's contracting process inasmuch as LADWP will report to the Board and City Council quarterly regarding the status of contracts pending, approved or terminated by the General Manager. In addition, approval of this ordinance will allow LADWP to purchase transformer test systems, centrifugal pumps, laboratory chemicals, circuit breakers, butterfly valves, welded steel pipe etc. in a less time consuming manner.

The proposed changes to LADWP's contracting process will provide increased efficiencies as well as greater flexibility in contracting, which will result in cost savings. If you have any questions or require additional information, please contact me at (213) 367-1338, or Ms. Winifred Yancy, Director of Legislative and Intergovernmental Affairs at (213) 367-0025.

Sincerely,



David H. Wright
General Manager

WJY:nsh

- c: The Honorable Paul Koretz, Vice Chair, Energy, Climate Change and Environmental Justice Committee
- The Honorable Gil Cedillo, Member, Energy, Climate Change and Environmental Justice Committee
- The Honorable Paul Krekorian, Member, Energy, Climate Change and Environmental Justice Committee
- The Honorable Mitch O'Farrell, Member, Energy, Climate Change and Environmental Justice Committee
- Ms. Winifred J. Yancy