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July 10, 2008

Honorable Members of the City Council
c/o Karen Kalfayan, City Clerk
Room 385, City Hall East

Dear Honorable Members of the City Council,

Attached please find the Controller's Review of Trash Fee revenues.

Most sincerely,

Laura N. Chick
City Controller

PUBLIC SAFETY

BUDGET & FINANCE

JUL 10 2008



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July 8, 2008

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The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

In May 2006, the Mayor announced a proposal for a full cost recovery trash collection fee to be phased in and to be used to cover the cost of hiring 1,000 additional new police officers. The Mayor invited me to be at this announcement, and we both promised the public that I would report back on how these dollars were spent. The subsequent Council action to initiate this fee broadened the uses to include "*public safety and for hiring 1,000 additional police officers.*"

It was known from the outset that the trash fee revenue would be commingled with other revenues from the General Fund; no special dedicated fund would be established. For nearly a year, my Office has struggled to get clarity and direction from the Mayor and CAO regarding an allocation methodology. In other words: What are they spending the money on?

Finally, almost two years after the initiation of the fee, we were given the following information: the money from the trash fee has been more than absorbed by the increased budget of the LAPD and meets the Council's general intent of public safety purposes.

Since September 2006, when the trash fee was initiated, almost \$137 million has been collected. In the same period, 366 additional police officers have been hired using \$47.2 million which covers the costs of recruitment, training, salary and benefits. The remaining \$89.4 million has been absorbed into other increases to the LAPD budget.

Sincerely,

A handwritten signature in cursive script that reads 'Laura N. Chick'.

LAURA N. CHICK
City Controller

LOS ANGELES CITY CONTROLLER'S REVIEW OF TRASH FEE REVENUES

The Los Angeles City Controller's Office has completed a review of the City Administrative Office's (CAO) schedules related to trash fee revenues and the uses of those funds.

Summary

The CAO has never established formal criteria for the use of the collections. Since September 2007, my office has attempted to review the uses of the funds but encountered difficulties because the CAO has revised its methodology several times. These revisions occurred after my auditors questioned the reasonableness of the methodology. Overall, over the last nine months, the CAO provided us with five sets of schedules that contained different methodologies.

For its final methodology and schedules, the CAO has defined public safety costs to mean any Police Department General Fund expenses that are in excess of the base year (the year before the first trash fee increase went into effect). Using this methodology, the CAO estimates that the fiscal year (FY) 2006-07 and FY 2007-08 total cumulative public safety costs over the base year is \$330 million. We believe that \$188 million is a better estimate. In calculating the \$330 million, the CAO used FY 2004-05 as the base year. We believe that FY 2005-06 should have been used because the first trash fee increase did not occur until September 2006. In terms of revenue, the Bureau of Sanitation has received approximately \$137 million in increased trash fee collections through June 30, 2008.

In the absence of formal criteria, one could argue that the increased trash fee collections have been used for public safety expenses since even our adjusted cost figure of \$188 million exceeds the increased trash fee collections by \$51 million (\$188 million - \$137 million). Therefore, from a legal standpoint, we believe that the funds have been used appropriately.

The CAO's schedules show that \$86.5 million of the \$188 million relates to the costs of hiring 405 net new officers between July 1, 2006 and June 30, 2008. These costs include direct salaries, related costs (pension and health), recruiting/equipment costs, and additional patrol vehicles. The remaining \$101.5 million would be for other public safety costs such as cost-of-living adjustments and step raises for all sworn and civilian Police Department staff. In calculating the \$188 million, the CAO used an average first year cost of \$156,808 per new officer (see Table 1 on the next page).

Table 1
Calculation of Average Cost Per New Officer
Single Year Hiring Costs For Each Year

Year	Single Yr. Hiring Costs	Net New Officers	Average Cost Per Officer (1)	Weighted Average
FY 06-07 (2)	\$13,216,922	150	\$176,226	\$72,224
FY 07-08	\$15,478,996	216	\$143,324	\$84,585
Totals (3)	\$28,695,918	366		\$156,808

(1) The average cost per officer assumes that the officers have been uniformly hired throughout the year. For example, the \$176,226 for FY 06-07 is $\$13,216,922 / 150 * 2$.

(2) The FY 06-07 figures reflect Single-Year hiring costs and net new officer figures since September 1, 2006 when the first rate increase went into effect.

(3) The \$28,695,918 relates only to the first year costs of the net new officers. The FY 07-08 costs for the 150 officers hired in FY 06-07 total \$18,499,203. Thus, the total costs of the net new officers through June 30, 2008 is \$47,195,121.

Background

Trash fees are collected by the Department of Water and Power. The collections, less processing fees, are transferred to the Bureau of Sanitation's Solid Waste Resources Revenue Fund (Solid Waste Fund). In FY 2005-06, trash fees generated \$86 million. To pay the full cost of service, additional General Fund dollars are provided to the Bureau of Sanitation to supplement the revenue generated by the Solid Waste Fund. As trash fee collections have increased as a result of increased rates, transfers from the General Fund to the Bureau of Sanitation have decreased from \$97 million in FY 2005-06 to \$3 million in FY 2007-08.

Verification of CAO's Figures

Revenues

Table 2 shows the CAO's figures for FY 2005-06 – the base year, through FY 2007-08. We traced these revenue figures to the Financial Management Information System.

The total cumulative increased revenue over the base year is \$136.6 million. In other words, through the end of FY 2007-08, the Bureau of Sanitation has collected \$136.6 million more than if the trash fee rates had remained at their FY 2005-06 levels.

Table 2
Solid Waste Revenue (in millions)
from FY 2005-06 to FY 2007-08

Fiscal Year	2005-06	2006-07	2007-08
Solid Waste Revenue	\$ 86.6	\$ 119.1	\$ 190.7
Increase Over Base Year	Base Year	\$ 32.5	\$ 104.1
Cumulative New Revenue		\$ 32.5	\$ 136.6

Expenses

The Council made a motion in April 2006 stating, "the City Administrative Officer work with the City Attorney and report to the Budget and Finance Committee on the mechanisms that could be used to earmark the General Fund savings generated through the increased trash collection fee so that they can be used solely and exclusively for public safety and for hiring 1,000 additional police officers." In July 2006, the Budget and Finance Committee received and filed the motion stating, "inasmuch as the 2006-07 Adopted Budget includes a new Financial Policy on Police Hiring that affirms that the City's highest funding priority will be to provide sufficient resources in direct support of expanding the Los Angeles Police Department to the level of 10,000 officers by Fiscal Year 2010-11, and no further Council action is required."

The CAO does not specifically track how the increased collections are spent. Basically, the increased collections result in a reduced General Fund contribution to the Bureau of Sanitation. Consequently, more dollars are available to fund all City services, including public safety.

However, the CAO has attempted to show that the collections have been used for public safety. The CAO has defined public safety costs to mean any Police Department General Fund expenses that are in excess of the base year (the year before the first trash fee increase went into effect).

Table 3 summarizes a schedule provided by the CAO which shows the Police Department's General Fund budget. The schedule shows that, through the end of FY 2007-08, the total cumulative increased costs over the base year are \$330 million.

Table 3
General Fund Contributions (in millions) to LAPD

Fiscal Year	2004-05	2005-06 (1)	2006-07	2007-08
General Fund Contribution	\$ 1,005	\$ 1,068	\$ 1,131	\$ 1,193
Increase Over Base Year	Base Year	\$ 17.6	\$ 125.2	\$ 187.2
Cumulative New Contributions		\$ 17.6	\$ 142.8	\$ 330.0

(1) - For FY 2005-06, the CAO's schedules reflect only \$17.6 million of the \$63 million in increased General Fund contributions over the base year.

We traced the FY 2004-05 through FY 2007-08 figures to budget books. The only problem we noted is that the CAO used FY 2004-05 as the base year to calculate the \$330 million. We believe that FY 2005-06 should have been used as the base year because the first trash fee increase did not occur until September 2006. This would reduce the cumulative total costs to \$188 million.

To ensure transparency, in the future, the City should develop formal criteria and a tracking methodology so that it can demonstrate that funds raised for a specific purpose have been used appropriately.

Hiring

Both the CAO and LAPD have been closely monitoring the number of sworn officers. The LAPD's schedules show 9,379 officers as of September 2006 when the first trash fee increase went into effect. As of June 30, 2008, the number of officers was estimated to be 9,745. The LAPD anticipates that it will reach its goal of adding 1,000 additional officers by the end of FY 2009-10.

Recommendation

In the future, the City should develop formal criteria and a tracking methodology so that it can demonstrate that funds raised for a specific purpose have been used appropriately.