



Richard Williams <richard.williams@lacity.org>

Wednesday, April 9, 2014 Special Housing Committee, Item,s 1 thru 7

H Wood <hwoodca@gmail.com>

Wed, Apr 9, 2014 at 10:47 AM

To: councilmember.cedillo@lacity.org, councilmember.buscaino@lacity.org, councildistrict15@lacity.org, councilmember.fuentes@lacity.org, councilmember.wesson@lacity.org, councilmember.price@lacity.org, Richard Williams <Richard.Williams@lacity.org>

Kantor 2020 Commission Report April 2014

No action should be taken in the HCIDLA until the pro's and con 's of this report have been disgested

On Tue, Apr 8, 2014 at 3:18 PM, H Wood <hwoodca@gmail.com> wrote:

Dear Honorable Councilmembers:

Attached please find Hollywoodians Encouraging Logical Planning's [HELP's] submission re the HCIDLA which is set for Wednesday, April 9, 2014.

 **2014-4-10 A-Time-For-Action.pdf**
1647K

A TIME FOR ACTION

Los Angeles 2020 Commission

Early in 2013 Los Angeles City Council President Herb Wesson asked Mickey Kantor to establish an independent, private commission to study and report on fiscal stability and job growth in Los Angeles. Mayor Antonio Villaraigosa also endorsed the establishment of the Commission.

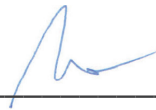
Mr. Kantor invited leaders in the Los Angeles community to serve on the Commission as volunteers. They represent the broad diversity of our community – members hail from the left and the right, from labor, business, government, academia and the nonprofit world. They reside in all parts of our community and have been active for many years in Los Angeles. Most importantly, each member of this Commission cares deeply about our city and shares the desire to see Los Angeles become one of the great cities of the 21st century.

The Commission first met in April 2013, and has held numerous meetings and hearings with individuals and representatives of institutions representing much of our city. The Commission also conducted independent research.

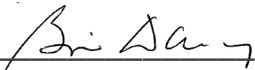
The Commission published its first report, *A Time for Truth*, in January 2014. *A Time for Truth* is a candid assessment of the challenges and opportunities Los Angeles faces. *A Time for Action* is the second and final report the LA 2020 Commission will publish. This report contains a series of concrete measures which, if adopted, will enhance transparency and accountability in City Hall, put Los Angeles on a path toward fiscal stability and renew job creation in the region.



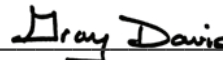
Hon. Mickey Kantor, Co-Chair



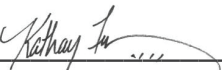
Austin Beutner, Co-Chair



Brian D'Arcy



Hon. Gray Davis



Kathay Feng



David W. Fleming



Antonia Hernández



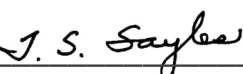
Tyler Izen



Ron Miller



George L. Pla



Thomas S. Sayles



Hon. Hilda L. Solis

A TIME FOR ACTION

Introduction

“The world as we have created it is a process of our thinking.
It cannot be changed without changing our thinking.”

Albert Einstein challenges us to change our thinking in order to change the world around us. This report is only one step in the process. We are not going to solve every problem facing Los Angeles, nor do we intend to, but we have to start moving in the right direction in order to open the doors of opportunity for all who live in our community. What can we do to begin to address the serious challenges facing our community?

A Time for Action offers a series of concrete measures to enhance transparency and accountability in City Hall, put the City on a path to fiscal stability, and renew job creation in Los Angeles. There are no “silver bullets” or simple solutions to these challenges, but the proposed measures, taken as a whole, are a solid step in the right direction and will provide a foundation for further change. Change is never easy, but unless Los Angeles embraces a different approach, it will become a city left behind in the 21st century.

Culturally rich and ethnically diverse – and blessed with a great climate which enables a unique lifestyle – Los Angeles possesses an exceptional set of characteristics which draws people to visit, live and work. It is many things to many people. For the tourist, it evokes images of the Hollywood Hills, beach boardwalks, and red carpet glamour. For those who live here, the City offers opportunities for a lifestyle not easily matched elsewhere. The entertainment industry and local arts and culture scene foster a haven for creative types, giving rise to thriving theater, art galleries and live music venues. LA’s wide variety of ethnic restaurants cultivate a diverse palate for the discerning foodie. Sports enthusiasts enjoy the area’s many teams, and for the outdoors lover LA’s climate and proximity to mountain and sea can’t be beat. The collective knowledge at our universities is second to none. We are the most diverse community in our country. Perhaps most importantly, we are an open society where anyone who works hard can succeed.

The LA 2020 Commission’s previous report, *A Time for Truth*, highlighted a number of challenges the City must address in order to compete effectively in a 21st century global economy. Among them:

- Los Angeles has a “job crisis.” It’s the only one of the major metropolitan areas in the country to show a net decline in jobs over the past two decades.
- The City of Los Angeles struggles with chronic budget shortfalls and as a result has dramatically cut services and investment in infrastructure, both physical and technological.
- Far too many Angelenos live in poverty, both those unemployed and those earning low wages.
- Traffic and transit congestion is stifling – hurting quality of life – and poses a major problem for any employer which might locate large numbers of employees in the area.
- Public education falls far short of the mark, yet there continues to be a lack of support in the community for the bold steps that need to be taken to prepare kids in our community to succeed.

Individually, any of these issues presents a serious human problem. Taken as a whole, they reflect a City struggling to make the changes necessary to excel in today’s fast-paced, ever-expanding global society.

Our aim is to better inform and empower both decision-makers and ordinary citizens in hopes that these recommendations will be acted on. This will require, as uncomfortable as it may be, confronting our weaknesses, and seizing opportunities to promote our strengths.

A Time for Action has three main themes: accountability and transparency; fiscal stability; and job creation. We were tasked with looking at the budget and jobs, and have proposed solutions to help address these particular areas. We did not have the time or the staff to tackle every issue affecting our city. That does not diminish the importance of solving problems ranging from homelessness in our community to passing on a safe, clean environment to the next generation, and many other issues. They are simply beyond the scope of what we were asked to address.

LA’s education and transportation problems, while also beyond the scope of our Commission, are two issues critical to the City’s present and future. They were highlighted in our first report because they are such an integral part of the foundation of any community. We cannot continue to fail to educate so many of our young people. Our community must begin to recognize education is the civil rights issue of our time, and do more, much more, to support those working to bring about meaningful change in our public education system.

We suffer from the worst traffic and transit congestion in the country. If our own transit planners tell us all of the previously proposed investment will hardly make a difference, then we need to raise the bar. Start with the question, what will make a difference? What does a plan look like to materially improve the situation? Then work our way to answers from there.

We all agreed to serve on the LA 2020 Commission out of genuine concern for the city we call home. We know the changes we are calling for won't be easy, but we're challenging our elected leadership and our fellow citizens to act and to act now.

Effective Government Starts with Transparency and Accountability

Accountability and transparency provide the foundation of any effective democratic institution. Governments that are open with their citizens not only provide useful information, they promote access to it, knowing they will be held accountable for what they say and do. This spirit of transparency builds public trust and encourages a level of civic engagement, which in turn, demands better outcomes. A virtuous circle.

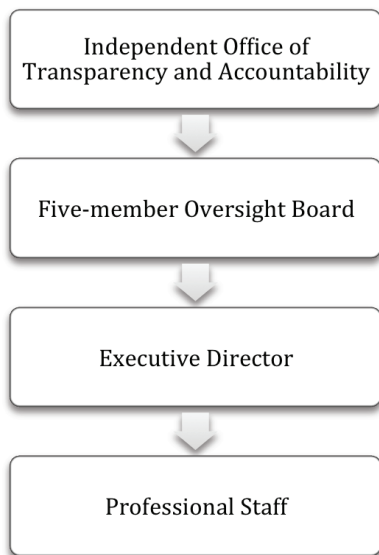
The ability to effect positive change in Los Angeles has been diminished by a political system that has lost touch with its citizenry and provides little useful information to measure outcomes. The onus is on City Hall to foster a culture of transparency and accountability that will lead to more efficient delivery of services and an increase in public participation in government.

The LA 2020 Commission is proposing three measures to enhance transparency and accountability in City Hall:

1. Create an independent 'Office of Transparency and Accountability.'

This body will provide taxpayers, voters, and the media with information and analysis of the City's budget, services, and related operations. This nonpartisan, apolitical entity will be charged with preparing critical analyses of what goes on in City Hall and how effectively the City is using taxpayer money to provide services. There are a number of examples of similar, independent efforts at the national, state and local level, including the Congressional Budget Office, California's State Legislative Analyst, and the City of New York's Independent Budget Office.

What would the Office of Transparency and Accountability look like?



- A Board comprised of five members: two appointed by the Mayor, two by City Council, and one by the City Controller, each serving four-year, staggered terms. A Board-appointed Executive Director would hire a professional and independent staff of approximately 10 people, with expertise ranging from the economy and public policy to information technology.

What are the responsibilities of the Office of Transparency and Accountability?

- Analyze and report on the City's budget.
- Analyze any new piece of legislation that has a potential impact on jobs or City revenues.
- Take a proactive role in examining existing issues and service standards in city government. Examples could include police and fire response times, effective use of technology, and engagement with neighborhood organizations.
- Measure outcomes. City Hall announces many programs but little, if any, effort is made to clearly identify to the public what actually gets done. Measuring outcomes would bring a level of accountability to the City's operations and improve decision-making by giving policy makers and taxpayers a better understanding of what has and hasn't worked.

Some of these functions, in theory, should already be provided by City Hall. The current system, however, has consistently failed to provide this objective information. Part of the problem is that the overseers of the current system are all elected officials and are, by nature, inherently political. Where does an ordinary citizen go to get unbiased facts?

Establishing an Office of Transparency and Accountability is intended to open the lines of communication between the electorate and their elected officials. It is not intended to add another layer to an already bloated bureaucracy. As a truth-telling body, it will help to even the playing field between those inside and outside City Hall, equipping taxpayers – and the media – with the facts and knowledge needed to more fully engage with policy makers.

2. Create a truly independent oversight and rate-setting body for DWP.

The Los Angeles Department of Water and Power is the nation's largest municipal utility and one of our city's greatest assets. Unfortunately, this institution is often subject to political interference and, as a consequence, high leadership turnover (10 general managers in the last 12 years). This leads to instability and constant shifts in direction and policies and ultimately impacts DWP's ability to make good long-term decisions.

Public utilities make large dollar, long-term investments involving very complicated issues based on sophisticated analyses. Proper consideration of these issues requires considerable utility expertise. Done wisely, the results are safe, reliable, and cost-effective service.

Charter Section 245, which allows City Council to overrule the actions of the DWP commission and management, in effect makes the Mayor and City Council the rate setter and regulator of DWP. However, City Hall lacks a consistent, informed staff with the experience and expertise to properly consider the investment decisions made by DWP.

We need a system that works for both the ratepayer and DWP's long-term best interests, independent from politics. A solution would be to establish a truly independent regulator of the utility that serves as the ultimate rate-setting authority, the 'Los Angeles Utility Rate Commission.'

What would the Los Angeles Utility Rate Commission look like?

- A five-member Board appointed by the Mayor, with each member serving four-year, staggered terms. Appointees must be approved by City Council, maintaining an appropriate level of accountability to City Hall. Similar to the California Public Utilities Commission Board, membership on this board would be a paid, full-time position. Board members should have a solid understanding of rates, ratemaking and how a utility business operates. The Board would appoint the General Manager of DWP.

The Los Angeles Utility Rate Commission

- Five-member board serving staggered four-year terms.
- Direct authority to:
 - *Determine DWP policy*
 - *Appoint DWP GM*
 - *Set utility rates and charges for services*
 - *Provide overall operational oversight in conjunction with the General Manager and staff*

- A full-time, professional staff of approximately 10 people would advise the Board. The staff members should have expertise on a diverse range of subjects, including distribution, generation, renewable energy, water systems and policy, and environmental safeguards.

Why a Utilities Rate Commission?

- A more professional rate-setting body would facilitate increased efficiency, more consistent policy and stable rates. It would not be subject to the agenda of any particular elected official. It would also provide the 10,000 DWP employees with consistent and effective leadership.
- It's time to take the politics out of DWP. The creation of professional, independent oversight of DWP would also reduce the distraction DWP currently creates in City Hall. To put all of the headlines about DWP in some perspective, if one assumes every DWP employee's wage was immediately cut 10% (a rather draconian proposal), the result would be a reduction of about \$1.50 per month in the average ratepayer's electric bill. Nice, but not life-changing. As *A Time for Truth* set forth, a reduction in time and effort spent on DWP by the Mayor and City Council would allow them to focus on other, larger issues.

3. Hold municipal elections at the same time as state and federal elections.

When the City of Los Angeles elected its new Mayor in May 2013, the headlines spoke of low voter turnout and voter fatigue. The City of Los Angeles currently holds their municipal elections at separate times than both the federal and state election cycle.

Only 21% of registered voters cast a ballot in the most recent municipal primary and just 23% participated in the runoff (only 14% of LA's voting age population). This is a stark contrast to Los Angeles County's 51% voter turnout for the November 2012 Presidential election.

City of San Diego (Even-year Consolidated) 2012

	<u>Primary</u>	<u>General</u>
Election Date	June 2012	November 2012
Voter Turnout	39.3%	69.4%

City of Los Angeles (Off-year) 2013

	<u>Primary</u>	<u>General</u>
Election Date	March 2013	May 2013
Voter Turnout	20.8%	23.1%

City elections garner significantly less voter participation than state and national elections. Lower turnout means greater influence by narrow, special interests. If we move our municipal elections to coincide with federal and state elections, this would encourage a larger and more diverse group of voters to engage with local politics and diminish the impact of lobbyists and special interests. Most of California's major cities, including Sacramento, San Jose and San Diego, already hold local elections at the same time as state and federal elections.

A well-informed electorate expects communication from and access to their leadership. They expect timely and effective delivery of services. They expect truth. If we can achieve the goals mentioned above – create an Office of Transparency and Accountability, establish an independent regulator for the DWP, and move municipal elections to coincide with state and national elections – we will be moving towards a more transparent and accountable city government which works in favor of ordinary people and elected officials alike.

Fiscal Stability Starts with Truth in Budgeting

Budgets are about making choices and measuring outcomes. Where is our money going? Where is it most needed? What outcomes – either services or infrastructure, both physical and technological – get delivered as a result of the spending? These are some of the questions our elected officials have to consider when deciding where to allocate limited resources. If no money, or not enough money, is allocated to do something, the job won't get done properly. The deterioration of our city streets and sidewalks and the woeful state of technology in public safety are just a few examples of the consequence of chronic underinvestment during the past decade. Cuts in services have impacted public safety, transportation, library hours, and almost everything else the City is supposed to do. Simply put, service cuts and an imbalance in the budget are directly tied. We need to balance the budget, otherwise our roads won't get fixed and our trees won't get trimmed.

In order to have a sustainable city government focused on effective and efficient service delivery, our elected officials need to start making more informed choices. This report outlines three steps to improve the City's current budget process, which will start the City down a path toward a balanced budget and will establish a framework for consistent investment in services and an ability to measure outcomes.

1. Adopt a 'Truth in Budgeting' ordinance.

The goal is to understand the longer-term consequences of policies and legislation. The Truth in Budgeting ordinance would mandate both a three-year budget and a three-year baseline budget. The Mayor would be required to propose a three-year budget each year.

Only the first year of this budget would be acted on and adopted by the City Council, but the remaining two years would show the longer-term budgetary implications of what the Mayor is proposing — new initiatives, changes in tax ordinances, adjustments to staffing or personnel policies, changes in compensation or retirement plans, etc. Having to show the future consequences of proposed actions will isolate budgetary gimmicks and make efforts to “kick the can down the road” more visible. Banked overtime for LAPD officers, for example, has deferred in excess of \$110 million worth of payment for services already performed to some future date thus forcing cuts to other services in the future. Extending the budget horizon will make it harder for such a ploy to be viewed as costless. Preparing a three-year budget will force a conversation about choices being made with current resources and better identify areas where the City should be exercising budgetary discretion.

The new ordinance would also require the Mayor to provide a three-year “baseline” budget that projects what revenues and expenditures would look like if there are no changes in labor contracts, spending commitments, or tax policies, and if City staff and services are maintained at the previous year’s level with increases only for projected wage and cost growth. The Mayor will then be required to state explicitly how and why his or her proposed three-year budget will deviate from this baseline budget and what changes in labor contracts, tax ordinances, staffing, and service levels account for these deviations. This will free us from the false promise of “balanced” budgets, which assume, for example, labor concessions that have not yet been agreed upon.

2. Be honest about the cost of future promises.

It is no secret that retirement obligations are taking a toll on the City’s budget. The portion of the City’s budget spent on retirement costs has grown from 3% in 2003 to 18% currently, and is forecasted to continue to take a larger share of the budget. A no-win proposition pits honoring the bargain to pay for retirement costs versus paying for current City services. This is not sustainable.

A thoughtful look at this issue requires both a careful understanding of the facts and a proper methodology of accounting for tomorrow’s promises in current budget dollars so enough money is set aside to pay the promises. It’s not fair to our kids to saddle them with costs for today’s workforce, and it’s not fair to today’s workforce if we’re not setting aside enough money to pay what they’ve been promised.

The principal method of accounting for the future in today’s dollars relies on a so-called “discount rate.” In simple terms, a discount rate is used to translate future costs into current dollars so an appropriate amount can be set aside today to pay for these future costs. The higher the discount rate, the less an employer has to contribute to their current budget for these costs.

The City should adopt a methodology to set a discount rate consistent with best practice. Looking at how federal regulators have strengthened rules in the corporate world over the past 30 years is a good place to start. Corporate pension bankruptcies in the late 70s and early 80s led the U.S. Department of Labor to step in to enforce stringent standards. As a result of the Employee Retirement Income Security Act of 1974, or ERISA, minimum standards for pension plans in private industry were set.

Because of this federal oversight, we no longer routinely see catastrophic collapse of corporate pensions where beneficiaries wind up with nothing and the enterprise goes bankrupt — now those kinds of stories are happening in the municipal world. Municipalities across the country are still largely self-regulating, and many have established discount rates that are much higher than the federal standards imposed upon private business. The most straightforward solution would be for the City to adhere to the same federal standards that apply to private industry. To be clear, we are advocating smart regulation, not turning the City into a corporation.

The current discount rate of 7.75% used by the City of Los Angeles is at the high end of the range which makes future obligations seem smaller, and raises the question whether sufficient savings are being put away today. Even based on the 7.75% discount rate, funding ratios for the City's pensions have continued to drop over the past decade.

Confused by all of this numbers-speak? Let's make it simple and have Los Angeles adopt its own "Buffett Rule," named after Warren Buffett who is generally regarded as the wisest investor of our time. The Buffett Rule is straightforward. The City should use the discount rate and pension plan earnings assumptions Buffett uses at his company, Berkshire Hathaway. Berkshire Hathaway is a large, diversified employer, like the City of Los Angeles, and has many businesses operating locally including BNSF and See's Candies. A quick comparison of today's assumptions raises questions.

	<u>Discount Rate</u>	<u>Projected Earnings on Plan Assets</u>
Berkshire Hathaway	4.0%	6.0%
City of Los Angeles	7.75	7.75

Can anyone in City Hall claim to know more about understanding future liabilities and how to budget today for them than Warren Buffett? Can anyone in City Hall make a credible case why City Hall is assuming it will do better on its investments over many decades than the world's most successful investor?

Defined benefit plans have a proper place in municipal government. In addition to providing employees with a secure retirement, they help the City maintain a stable and experienced workforce. None of us wishes to see a circumstance where our most seasoned public safety officers, city planners or other service leaders routinely leave our City.

Sound practices will eventually lead us to a more stable funding position. There is no overnight fix, but over time we can bend the shape of the curve in the right direction.

3. Establish a 'Commission for Retirement Security' to review the City's retirement obligations in order to promote an accurate understanding of the facts.

This should start with a careful, detailed look at retirement costs, answering two very basic questions: what is the total lifetime cost of an employee to the City, and what is the total compensation to the individual? The commission will produce a report to make the City's finances more transparent for both the average citizen and decision-makers.

With facts in hand, the Commission for Retirement Security would be tasked with making concrete recommendations on how to achieve equilibrium on retirement costs by 2020.

What would the Commission for Retirement Security look like?

- Five members, appointed by the Mayor, City Council and Controller, with a budget sufficient to hire outside experts (actuaries, accountants, lawyers), who would be granted full access to City employee records and labor contracts.
- The Commission would be given 120 days to do its work and report on its findings.

What would the Commission on Retirement Security do?

- Report on employment cost in various categories including healthcare, salary, wages, worker's comp, cost-of-living adjustment, step function, overtime, and any other components, for each of the City's main bargaining units.
- The commission would look at both the employer's and employee's perspectives. From an employee's perspective, what is the total compensation, now and in the future, that an individual can expect from the City, in the form of today's total wage and tomorrow's retirement benefits?

The issues presented by ballooning retirement costs are not new in City Hall. There has been discussion, review of some of the issues and some steps have already been taken. Several of the bargaining groups have engaged in good-faith efforts with City Hall to make changes.

These efforts need to continue, and making sure all stakeholders, including the general public, have the same view of the facts will help ensure progress continues to be made.

There are no simple solutions to balance the Los Angeles City budget, and all of them involve tradeoffs. We have outlined several ways to improve budget integrity, starting with capturing long-term consequences of legislation by implementing three-year budgets and baseline budgeting. This will force those in government to keep the future in mind and decrease the chances of problems being kicked down the road. We also propose using a discount rate for future spending, including retirement costs, which is consistent with best practice. Finally, establishing a special, one-time effort to review the current state of LA's retirement obligations will provide the facts and concrete recommendations to reduce the structural deficit, recognizing the legitimate interests of both hard-working City employees and hard-working taxpayers.

Enabling Job Creation Through Innovative Economic Development

A city's ability to maintain a competitive edge in today's evolving global economy depends largely on how well it attracts – and retains – business, investment, and a talented workforce. With its ideal location, access to world-class resources and diverse pool of human capital, Los Angeles should, in theory, be well ahead of the curve. The reality of the city's current economic situation is quite different, however.

First and foremost this is a human issue. We have far too many people living in poverty, far too many people without jobs and far too many people barely getting by on poverty wages.

To put into perspective just how important job creation is to the City budget, for every 1% reduction in unemployment the City would realize an estimated additional \$30-40 million each year in added revenue. This would pay more city workers, pave more streets and fix more sidewalks. Growing the pie helps provide more services.

Our ability to compete is also inextricably linked to having an educated workforce. We can't expect more jobs and investment without better public education. Los Angeles public schools struggle with high dropout rates and low academic achievement. For the first time in a long time, progress is being made, in part due to new leadership. The challenge for all of us is to help turn this shift into meaningful, sustainable improvement. Bold steps need to be taken, starting with a hard look at where accountability lies for our public education system. Our current approach is not acceptable – a part-time, elected school board (elected by less than 20% of adults in our community) overseeing a \$7+ billion enterprise does not make sense. Cities in other regions across the country have either moved to mayoral control or clarified and strengthened the role of the Board and improved their Board's working relationship with school administrators to try and establish accountability.

LAUSD's current governance structure is prone to crisis, turnover and inconsistency; and provides little accountability.

How can we expect to build and maintain a sustainable future for our City if so many in our workforce are barely scraping by? Increasing the minimum wage will help raise low-wage earners out of poverty and stimulate our economy. We live in a region with one of the highest costs of living in the country — we can and need to do better than \$10 an hour by 2016. Governor Brown has started the conversation and local elected leaders should be considering the appropriate regional approach to act on this issue.

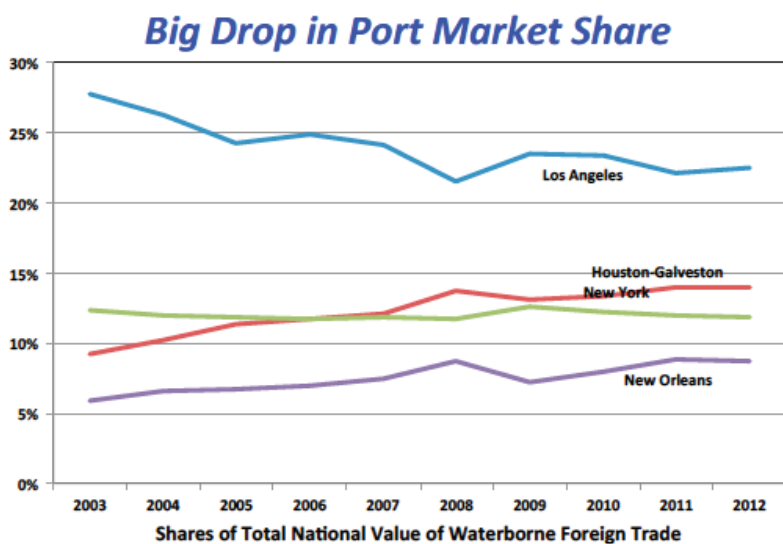
The LA 2020 Commission is proposing the following strategies to facilitate job growth and stimulate economic development while strengthening our communities.

1. Collaborate as a region to bring in more jobs and investment, and tax revenue they generate.

So much of what our City does involves surrounding cities. Regional cooperation is a no-brainer, especially when it comes to tourism and ports — two big job creators in our region.

- **Combine the Ports of Los Angeles and Long Beach.**

The ports of Los Angeles and Long Beach together form the fifth busiest port facility in the world (busiest in the Western Hemisphere), and the first and second busiest container ports in the United States, respectively.



Los Angeles and Long Beach should parlay their individual successes into a combined port to enhance their overall competitive position — a one-two punch, if you will. Why? For starters, the share of the nation's goods handled by our region has dropped more than five percentage points in the past 10 years. But it isn't just about losing five points of market share; it's about tax revenues and jobs. That drop in market share alone is the size of the fifth biggest port in the country, Seattle-Tacoma, which accounts

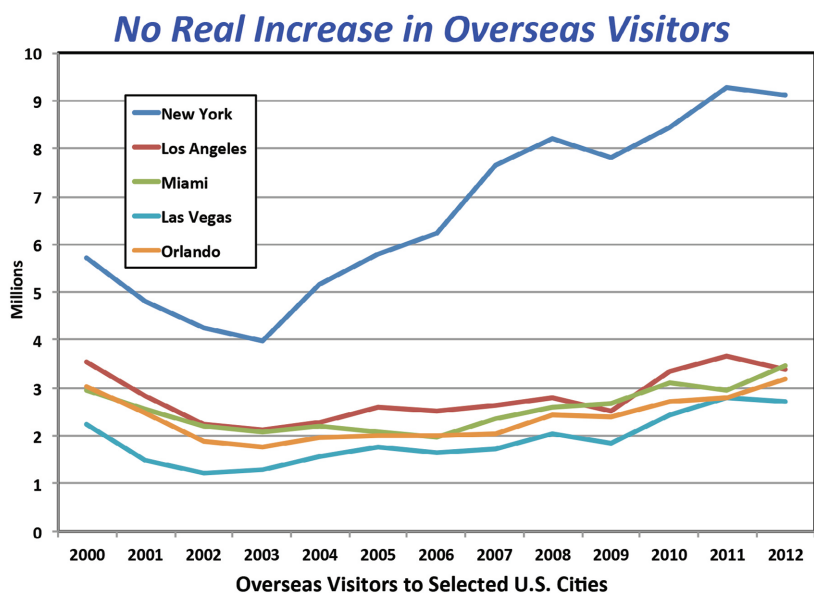
for more than 60,000 jobs and has in excess of \$100 million in revenue. We should fight to bring those jobs and tax revenues back to Los Angeles.

All too often the Ports of LA and Long Beach issue press releases boasting of new customers — one only has to study the details to understand these customers are just switching from LA to Long Beach or vice versa and not bringing new jobs to the region. And with the ongoing widening of the Panama Canal, maritime trade is about to get a lot more complex — and competitive. We should be competing with ports in other regions, not with each other.

This kind of regional cooperation happens elsewhere. The third largest port in the U.S., the Port Authority of New York and New Jersey, was formed by two rival states who don't agree on much, but who understand the value of cooperating for a brighter shared future. Vancouver-area ports combined properties and assets in 2008 to form Port Metro Vancouver, which has brought significant employment and economic benefits to the region. In January 2014, the ports of Seattle and Tacoma – which sit 30 miles apart from each other – agreed to share information about operations, facilities and rates to help Puget Sound compete in a shifting global maritime industry.

Long Beach and Los Angeles could enter into a Joint Powers Agreement (JPA) to manage future strategy and direction as well as capital planning and rate-setting. A JPA should not be construed as either the port of Los Angeles or Long Beach ports being taken over by the other — rather, this should be a true 50-50 collaboration, with the governing board comprised of equal representation appointed by the Cities of LA and Long Beach. The individual ports would still oversee day-to-day operations for now, but over time the ports would naturally become more closely linked in day-to-day operations.

- **Establish a Regional Tourism Authority.**



Another major characteristic of a competitive city is how well it attracts tourists. As we noted in *A Time for Truth*, the cities of Los Angeles, Beverly Hills, and Santa Monica each maintain independent efforts to attract international tourists. This lack of collaboration results in fewer tourists, fewer jobs serving the tourists, and less tax revenue to the region from sales and occupancy tax paid by the tourists.

We need to do more to attract international visitors, who on average spend five times as much as a domestic traveler. Every city's tourist industry suffered from 9/11, but New York was back to pre-9/11 levels in 2005 – while LA just got there in 2011. Since the start of 2003, New York's number of international visitors has gone up 129%, while Los Angeles has made only modest gains.

What is NYC doing right? According to a 2013 report on New York City's tourism industry, the need to modernize led to the City's teaming up with the private sector to create a better marketing approach. The result was the creation of a single, full-service, public-private entity tasked with promoting New York to domestic and international travel markets.

More than a decade ago Hawaii recognized an opportunity for its islands to collaborate rather than compete. It formed a regional operation that markets Hawaii as a whole while still working to attract visitors to individual islands.

Establishing a Regional Tourism Authority would stimulate tourism using an integrated marketing approach and would help promote our region's unique and diverse attractions as a package deal: "While you're here stay an extra day! Visit the Getty or Long Beach Aquarium; catch a Dodgers game, visit the Santa Monica Pier or take a tour of the Reagan Library! Check out the latest exhibit at MOCA, then head to Griffith Park to view the stars."

The Authority could be governed something like the LA County MTA. All of the major areas would be represented, from LA to Long Beach to Beverly Hills to Santa Monica, and would combine expertise in tourism, marketing, and hospitality with a global perspective. A portion of each of the cities' marketing dollars would go into a fund to promote the region as a whole. A major part of this collaboration would include partnering with cultural institutions, corporations, and sporting venues, as well as the region's two biggest draws – Disneyland and Universal Studios.

2. Focus on economic clusters to generate jobs of the future.

Since our last report was published, yet another Fortune 500 company announced it would be moving its headquarters from Los Angeles, leaving us with only three. What can we do to bring large employers back into the fold?

For starters, we must reduce the red tape and overlapping bureaucracies that companies face today in Los Angeles. This will require a concerted effort by our elected officials to take faster and more efficient steps towards creating a transparent and business-friendly atmosphere — easier said than done, but the City must make this a priority.

At the same time, we must find new and innovative ways to encourage economic development that will lead to more stable and long-term investment. We need to find ways to capitalize on areas where Los Angeles holds a sustainable comparative advantage. Such areas include the city's intellectual capital from our world-class universities and diverse population, the buying power of our regional marketplace, and our forward-thinking environmental policies.

Economic clusters are akin to regional hubs of jobs of the future. In which sectors or industries will we have a comparative – and competitive – advantage years from now?

- *Bioscience and technology.* We should be capitalizing on the unparalleled intellectual resources from nearby world-class universities. The City of New York's public-private partnership to build a 'campus of the future' on Roosevelt Island will create 20,000 construction jobs and 8,000 permanent jobs – from building staff to office workers to professors. The project will also foster 600 spin-off companies, which will create an additional 30,000 jobs, in addition to catapulting New York City to the front of the race to the future. Nothing – except possibly that bureaucracy we've been mentioning – is stopping Los Angeles from pursuing a similar groundbreaking venture. We have all the tools to become a leader and 'hub of choice' in innovation; we must utilize them before the opportunity goes elsewhere.
- *Manufacturing.* The face of manufacturing continues to change as it adapts to new technologies. The buying power of Los Angeles' marketplace, municipalities in particular, should be used to bring more manufacturing jobs to our area. We led the nation with policies in renewable energy, yet far too few jobs making wind turbines, solar panels, and storage batteries have been created in California. Let's not repeat that mistake in emerging, high-tech manufacturing areas.

One example of manufacturing that will help create jobs and bring in revenue is the electric bus industry. Electric buses are being used in cities around the world to satisfy their demand for clean public transport. There are no large-scale electric bus plants in the U.S. today. MTA now buys its CNG buses from Alabama and Minnesota. Why can't LA lead the nation in creating an e-bus industry and someday sell buses to Alabama and Minnesota?

- *Environmental Regulation and Testing.* Los Angeles has led the nation on environmental policy and practice for decades, and as a consequence, LA's air quality has dramatically improved over the past 30 years. The California Air Resources Board is looking to establish a new headquarters and testing center, and Los Angeles would be a natural fit. Such a move would encourage a new generation of research and cutting edge science to crop up in our backyard. Los Angeles could build on this and become a center of excellence where manufacturers from around the world test and develop new equipment. An Air Resources Board headquarters would bring hundreds of jobs to the city and stimulate economic growth in surrounding communities. Opportunities like this one don't come along every day. We need our elected leadership to go out and play some offense here. City Hall must convince state leaders in California to bring CARB headquarters to Los Angeles.

3. Update Community Plans to enhance neighborhood input and establish a thoughtful growth strategy.

Transit, public safety, education, recreation, workspace – these most central aspects of a thriving community rely on comprehensive, up-to-date community plans. Los Angeles is made up of 35 communities, each with its own plan. These Community Plans specify goals and policies for land use, providing zoning for commercial, residential, recreational, school and transit areas of our neighborhoods. Most of LA’s Community Plans were adopted almost two decades ago and haven’t been updated since. Without valid information it’s difficult to assess where, for example, to put bus stops or transit lines that reflect a community’s current circumstances and future needs.

Bureaucratic delays – multiple hurdles and overlapping and time-consuming requirements for various permits – present a major problem to anyone undertaking a business venture in Los Angeles. Because zoning rules are not clear, almost all new projects must pass through City Hall where they are subject to the whims of special interests, “nimbyism,” and individual elected officials. Red tape and a lack of transparency are deterring investment and encouraging piecemeal solutions that hinder more comprehensive and thoughtful planning for the future.

The City should commit to update all of Los Angeles’ Community Plans by 2020, and adopt a statute that each plan should be updated every five years. This will enhance input from our neighborhoods while providing residents, investors and public planners with a more streamlined and transparent process.

The updated Community Plans could also serve as a local job stimulus as they would enable agencies such as the MTA and school authorities to accelerate the spending on their existing bond programs. This could unlock billions of spending and thousands of jobs.

Outlined above are a few areas to jumpstart sustainable economic development in Los Angeles. We need to address the shortcomings of our public education system starting with a better system of accountability. Regional collaboration in the areas of maritime trade and tourism will help us compete in a fast-paced global economy. Economic clusters capitalize on LA’s reputation for creativity and innovation as well as one of our best assets – access to first-rate universities and research facilities. Developing clusters where Los Angeles holds a sustainable comparative advantage will create jobs now and in the future. Integrated and updated planning and zoning will help provide Los Angeles with more efficient transit options and better functioning neighborhoods, as well as space for manufacturing and new industries and jobs to grow. We have all the ingredients to make a world-class, successful city of the future; let’s start putting our assets to work for the greater good of all Angelenos.

The Time to Act is Now

Change is not easy, but in Los Angeles it is necessary. Let's start with transparency and accountability in government. Establishing an independent 'Office of Transparency and Accountability in Government,' taking the politics out of the Department of Water and Power, and reforming our municipal elections system will help foster a much-needed culture of transparency at City Hall. This openness will not only better inform the public's expectations about what city government can and can't do, it will compel elected officials to focus on our most pressing needs rather than do what is politically expedient.

What can be done to address the City's chronic budget crisis, its so-called structural deficit? Why do City Hall forecasts continue to show costs rising faster than revenues? Where is our money going? Adopting a policy of 'Truth in Budgeting' will force decision makers to justify how current spending levels will benefit Los Angeles in the long-term. The public should know how the City accounts for its future retirement costs and budgets for that in the present. Creating an objective way to measure outcomes will take us a long way towards better fiscal management and transparency in the decision-making process.

With its diverse population, access to top-notch resources, and ideal location, Los Angeles is brimming with potential to create new jobs and bring emerging new industries to its communities. Regional collaboration and innovative economic clusters will provide opportunities for job creation on a large scale and attract significant, long-term investment. Updating Community Plans will help our city's neighborhoods thrive by aiding thoughtful transit planning and establishing clear zoning policies. This will enhance LA's overall economic development by making it easier for residents to access schools, work, and shops, and encouraging small and large employers alike to plant their roots in our city.

A Time for Action sets forth a series of concrete recommendations that deserve consideration. They should not be allowed to sit on a shelf and collect dust. We challenge our elected leadership to be accountable; to study each of these ideas carefully and provide our community with an explanation of their response. The Mayor and City Council will choose to adopt or not adopt any of our recommendations, but they should not ignore them. The time to act is now.

Source Notes

Page 3

1. **"...and the City of New York's Independent Budget Office."**

SOURCE: <http://www.ibo.nyc.ny.us/about/Whatwedo.html>

Page 6

2. **"...just 23% participated in the runoff (only 14% of people of voting age)."**

SOURCE: The most recent estimate from Census Bureau's American Community Survey for population in Los Angeles City 18 years of age or older is for 2012 (<http://quickfacts.census.gov/qfd/states/06/0644000.html>). Voting-age population in Los Angeles City in 2012 was 2,990,943. Thus, the 419,753 votes cast represented 14.0 percent of the voting-age population.

3. **Los Angeles and San Diego, Odd-Year vs. Even-Year Elections**

SOURCE: The Greenlining Institute, Research Brief: Odd-Year vs. Even-Year Consolidated Elections in California, October 2013

<http://greenlining.org/wp-content/uploads/2013/10/Research-Brief-Odd-Year-vs-Even-Year-Consolidated-Elections-in-California.pdf>

Page 8

4. **"...retirement cost has grown from 3% in 2002-2003 to 18% currently"**

SOURCE: California Common Sense

Case Study by Adam Tatum: Los Angeles's Pension Slide, 2003-2013, pg. 2. February 28, 2013

<http://cacs.org/images/dynamic/articleAttachments/26.pdf>

Page 9

5. **"...pension plans in private industry were set."**

SOURCE: http://www.dol.gov/ebsa/faqs/faq_compliance_pension.html

6. **"... discount rate and pension plan earnings assumptions Buffett uses at his company, Berkshire Hathaway."**

SOURCE: United States Security and Exchange Commission, Form 10-K, Berkshire Hathaway, pg. 95.

<http://www.berkshirehathaway.com/2012ar/201210-K.pdf>

Page 11

7. **"...part-time school board (elected by less than 20% of adults in our community)"**

SOURCES: <http://cityclerk.lacity.org/election/archives/archives2013/general/stvctotl.txt>

<http://cityclerk.lacity.org/election/archives/archives2013/primary/stvctotl.txt>

8. **"...overseeing a \$7+ billion enterprise"**

SOURCE: Superintendent's Final Budget, Los Angeles Unified School District pg. 20.

<http://laschoolboard.org/sites/default/files/LAUSD2013-14FinalBudget.pdf>

9. **“Big Drop in Port Market Share”**

SOURCE: U.S. Waterborne Foreign Trade by Customs Districts, Maritime Administration,
U.S. Department of Transportation

http://www.marad.dot.gov/library_landing_page/data_and_statistics/Data_and_Statistics.htm#Trade%20Statistics

10. **“That drop in market share alone is the size of the fifth biggest port in the country, Seattle-Tacoma, which accounts for more than 60,000 jobs and has in excess of \$100 million in revenue.”**

SOURCES: <https://www.portseattle.org/About/Publications/Statistics/Seaport/Pages/default.aspx>

<http://portoftacoma.com/community/economic-impact>

11. **“No Real Increase in Overseas Visitors”**

SOURCE: Survey of International Air Travelers, Office of Trade and Travel Industries, Commerce Department

12. **“...spend five times as much as a domestic traveler.”**

SOURCE: <http://www.ustravel.org/research/international-research>

13. **“...According to a 2013 report on New York City’s tourism industry.”**

SOURCE: http://www.nycgo.com/assets/files/pdf/New_York_City_Tourism_A_Model_for_Success_NYC_and_Company_2013.pdf

14. **“...to build a ‘campus of the future’ on Roosevelt Island...”**

SOURCE:

<http://www.bloomberg.com/news/2011-12-19/cornell-university-said-to-be-chosen-by-new-york-for-engineering-campus.html>

15. **“...Los Angeles is made up of 35 communities, each with its own plan.”**

SOURCE: <http://cityplanning.lacity.org/>

Acknowledgements

The commission members wish to thank the many dedicated citizens who shared their thoughts, ideas and insights with us during our deliberations regarding the many challenges confronting the City of Los Angeles and the Southern California region.

Additionally, the Commission is grateful for the assistance and support received from the following organizations and individuals:

Financial Support

California Community Foundation
James Irvine Foundation
Weingart Foundation

Staff

Norman Emerson
Consultant

Dr. C. Richard Neu, RAND Corporation
Research and Economic Analysis

Ms. Emily Morris
Writer

Research and Analytical Support

Adam Bierman, Latham & Watkins, LLP
John Harabedian, Latham & Watkins, LLP
Kyle Haverback, Mayer Brown, LLP

Administrative Support

Ms. Pearl Fuentes, Mayer Brown, LLP
Ms. Sharon Neal, Office of Austin Beutner

Whatever happens on the ice and snow of Sochi in the next couple of weeks, one thing is certain: this Winter Olympics is the greatest financial boondoggle in the history of the Games. Back in 2007, Vladimir Putin said that Russia would spend twelve billion dollars on the Games. The actual amount is more than fifty billion. (By comparison, Vancouver's Games, in 2010, cost seven billion dollars.) Exhaustive investigations by the opposition figures Boris Nemtsov, Leonid Martynyuk, and Alexei Navalny reveal dubious cost overruns and outright embezzlement. And all this lavish spending (largely paid for by Russian taxpayers) has been, as Nemtsov and Martynyuk write, "controlled largely by businesspeople and companies close to Putin."

Sochi is emblematic of Russia's economy: conflicts of interest and cronyism are endemic. But the link between corruption and construction is a problem across the globe. Transparency International has long cited the construction industry as the world's most corrupt, pointing to the prevalence of bribery, bid rigging, and bill padding. And, while the sheer scale of graft in Sochi is unusual, the practice of politicians using construction contracts to line their pockets and dole out favors isn't. In the past year alone, Quebec learned about systematic kickbacks and Mob influence in the awarding of city construction contracts. In Turkey, Prime Minister Recep Tayyip Erdoğan has become embroiled in a vast scandal involving friendly construction tycoons who were given cheap loans and no-bid contracts. And a recent report from the accounting firm Grant Thornton estimated that, by 2025, the cost of fraud in the industry worldwide will have reached \$1.5 trillion.

What makes construction so prone to shady dealings? One reason is simply that governments are such huge players in the industry. Not only are they the biggest spenders on infrastructure; even private projects require government approvals, permits, worksite inspections, and the like. The more rules you have, and the more people enforcing them, the more opportunities there are for corruption. And, in many countries, the process of awarding contracts and permits is opaque. As Erik Lioy, a forensic accountant and fraud expert at Grant Thornton, told me, "When it's not clear how projects get approved, people assume the worst, and that provides incentives to do a bribe or kickback."

On big government projects, additional factors kick in. Such projects are rare, and construction work is erratic, so politicians with contracts to award have immense leverage.

For contractors, bribery will always be attractive, because the cost of a bribe is dwarfed by the value of a contract—an effect known to economists as the Tullock paradox. And, as a study by Neill Stansbury, the co-founder of the Global Infrastructure Anti-Corruption Centre, put it, when a project is really big "it is easier to hide large bribes." Then, too, Lioy explains, "most big projects involve building something unique, or at least something that's never been built in that place before, and that makes it harder to estimate if costs are reasonable." Corruption is obvious only when costs are completely absurd—which Nemtsov and Martynyuk have shown is the case with Sochi's ice arenas and ski jumps.

Sochi is a monument to Putin's Russia—a nationalist showcase, intended to demonstrate just how far the country has come in the past two decades. It has also given Russia its first world-class winter resort, and has significantly developed the infrastructure of the Caucasus. In that context, overspending can become, perversely, a point of pride. The contractors on the Pyramids almost certainly padded the bills, too.

It's no surprise that graft-ridden grandiose projects are most common in countries where government isn't accountable. But even politicians who (unlike Putin) have to worry about being reelected often see benefits in unnecessary or wasteful construction spending, because it gives the economy a short-term boost. Turkey's construction spree, for instance, has played a major role in its economic boom. Construction creates jobs, and often reasonably well-paying ones. That's why, going back to the days of Boss Tweed, pouring money into construction projects has been a key part of what's sometimes known as "populist clientelism"—

a system that allows politicians both to reward cronies and to appeal to voters.

But an economic boost based on corrupt spending is an illusion, the equivalent of a sugar high. Paolo Mauro, an economist at the I.M.F., says simply, "Corruption is bad for economic growth." It's well documented that corruption discourages investment, because it makes businesses uncertain about what it takes to get ahead; as one study put it, "Arbitrariness kills." Corruption also skews government spending. The economists Vito Tanzi and Hamid Davoodi found that corruption leads politicians to overinvest in low-quality infrastructure projects while skimping on maintaining existing projects. (It's easier to collect bribes on new construction than on maintenance.) And, in a pathbreaking study nearly twenty years ago, Mauro found that countries with high levels of corruption spent little on education. In economist-speak, corrupt politicians put too much money into physical capital and not enough into human capital. Crony construction capitalism leaves us with too few teachers and too many ski jumps to nowhere.

—James Surowiecki

