COALITION OF LA CITY UNIONS

May 5, 2014 Presentation to
City of Los Angeles
Budget and Finance Committee

A Balanced Plan to Fix L.A.

A report prepared for the Coalition of L.A. City Unions and the Fix L.A. Coalition principally by the Research and Policy Department of Service Employees International Union Local 721.

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Executive Summary

We present this report as the Coalition of LA City Unions,[1] which represents 22,000 of the City's civilian employees, and as members of a recently formed, broader-based community coalition called Fix LA.[2]

The Coalition of LA City Unions has a rich history of advancing ideas that lead to constructive change in city government. The city's current Quality and Productivity Commission was in large part born from more than 400 efficiency recommendations from the Coalition's line workers.

In 2010, the Coalition promoted creation of the Commission of Revenue Efficiencies, which was led by the City's now-elected Controller Ron Galperin. Our Coalition Chair sat on the committee, working to promote revenue reforms now being implemented by the Inspector General. In 2012, Coalition researchers identified tens of millions of dollars in unspent funds sitting idly, in some cases for years, in department accounts. The findings resulted in a new city policy to reclaim those funds. So far, $38 million has been reclaimed.

This year, we urge that city leaders adopt an approach to budgeting built around three guiding principles endorsed by the Fix LA coalition:

- ***Maximize and reclaim revenue before cutting workers or services to communities.***

- ***Make restoring neighborhood services to pre-recession levels a top short-term priority.***

- ***Make providing good jobs for Angelenos a top long-term priority.***

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[1] The Coalition of LA City Unions consists of AFSCME District Council 36, SEIU Local 721, The LA/OC Building and Construction Trades Council, LIUNA Local 777, Operating Engineers Local 501, SEIU 721 and Teamsters Local 911.
[2] The Fix LA Coalition consists of the Alliance of Californians for Community Empowerment, SCOPE, Innercity Struggle, the Southern Christian Leadership Conference of Southern California, KIWA Workers for Justice, The Community Coalition, One LA, People Organized for Westside Renewal, Strategic Actions for a Just Economy, the Los Angeles County Federation of Labor, the Coalition of LA City Unions, AFSCME District Council 36 and SEIU Local 721.

Our report covers diverse terrain.

1. Coalition Member Sacrifices in Wake of the Wall Street Crash briefly reviews the sacrifices that our members have made to help taxpayers cope with the economic hard times brought on when unchecked Wall Street greed crashed the economy in 2008.

2. Effects of the City's Austerity Approach on Neighborhoods illustrates the kinds and magnitude of service cuts that have harmed quality of life in many Los Angeles neighborhoods. We fear these cuts, if unchecked, could undermine the city's reputation as a desirable place to live and do business.

3. Changing the Conversation about Wall Street offers our analysis of city government's current financial state, with recommendations on how to improve it further in the short- and long- term. We report for the first time on the eye-popping fees that city taxpayers are paying to Wall Street. In a single year, we estimate the City of Los Angeles spent more than $300 million on fees to its banks and other financial firms, not counting payments for principle and interest on borrowed funds. That is almost as much as the city collected in sales taxes. We question whether fees of this magnitude are justified. Based on our research, which included consultations with academic experts and former hedge fund managers, we believe some of these fees are predatory and have resulted in Wall Street taking money that should go to our streets. We believe the city should set an immediate goal of reducing them by at least 10 percent and propose some of the most likely avenues to accomplish this. We also believe the city should hold public hearings on these fees, whose very existence, in many cases, is not transparent. As Supreme Court Justice Louis D. Brandeis once observed, "Sunshine is said to be the best of disinfectants."

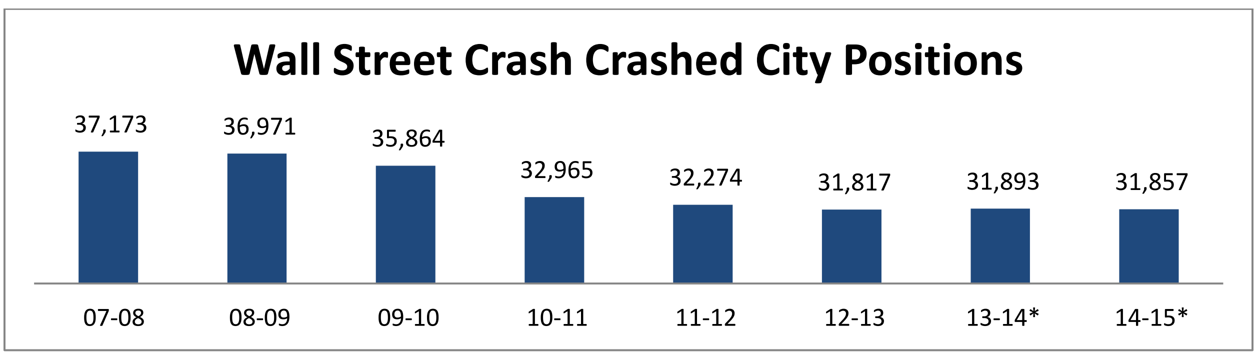
4. Quality jobs and City efficiencies reviews and offers solutions to staffing and service ground level issues and specific roadblocks that we believe are hampering effective delivery of services to taxpayers.

1. Coalition Member Sacrifices in Wake of the Wall Street Crash

We note with appreciation the observation in the Mayor's budget presentation that "Everyone made sacrifices during the recession."

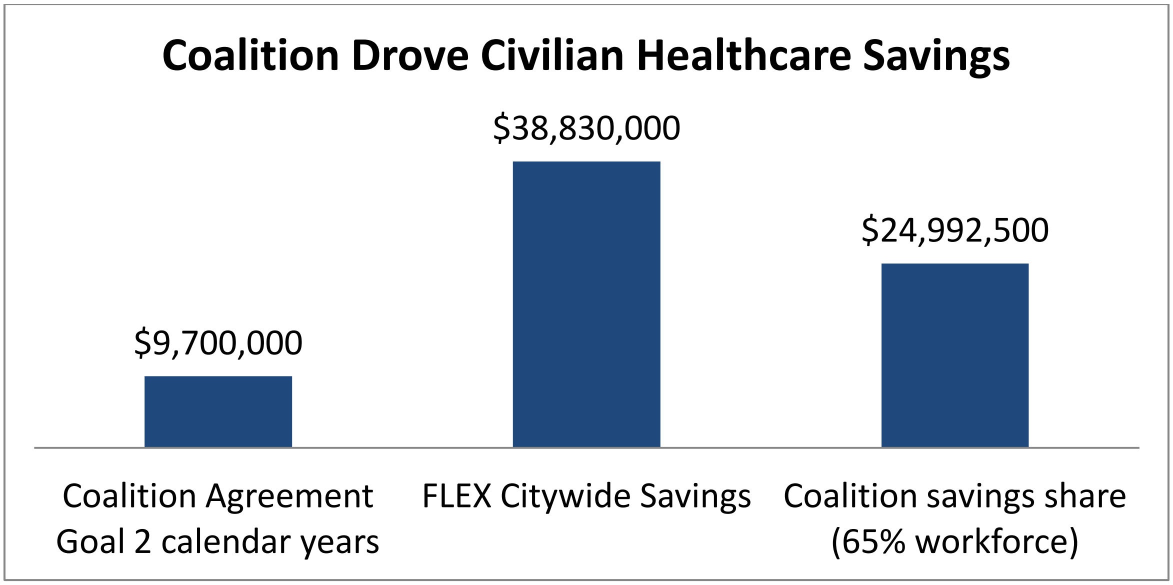
As the public naturally looks at the City workforce as one body, we do need to distinguish ourselves and our members as having driven change. Due to our agreements, the city shrunk its workforce by 5,000 positions because we agreed to open our closed contracts, defer wages, reduce benefits and help fund an early retirement program to save taxpayers more money in a time of economic crisis.

Table 1



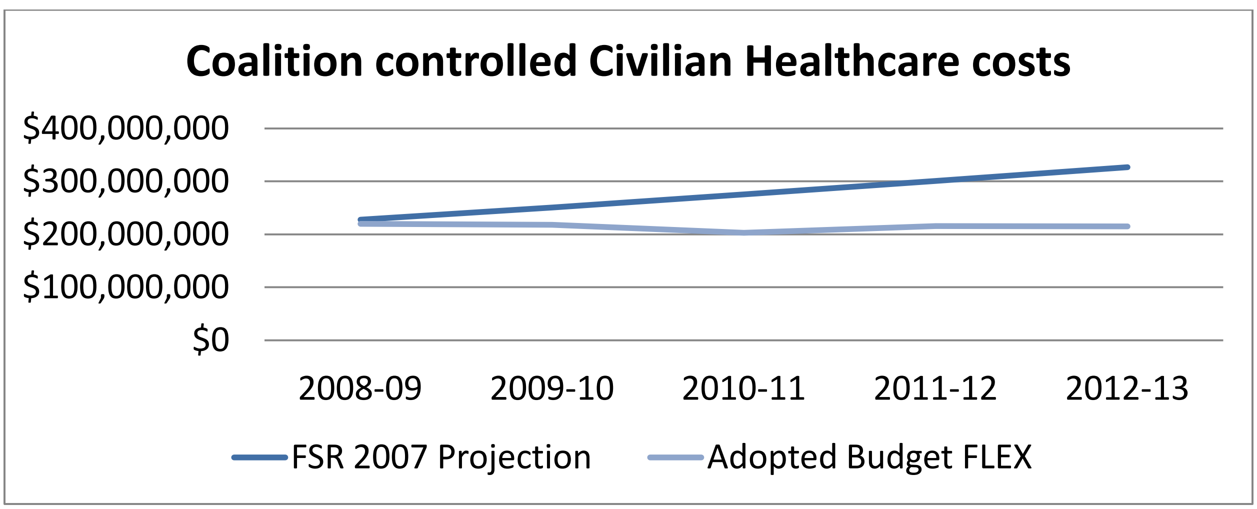
We saved taxpayers tens of millions of dollars in health care costs alone. To address rising costs in healthcare, the Coalition drove cost reduction goals of FLEXCARE, the Civilian health plan. We agreed to cost saving targets for two calendar years (2012, 2013). In both instances, these goals were exceeded. Additionally, the Coalition called for new carrier bids, which for calendar year 2014 are estimated to yield $8.1 million in city cost savings.

Table 2.



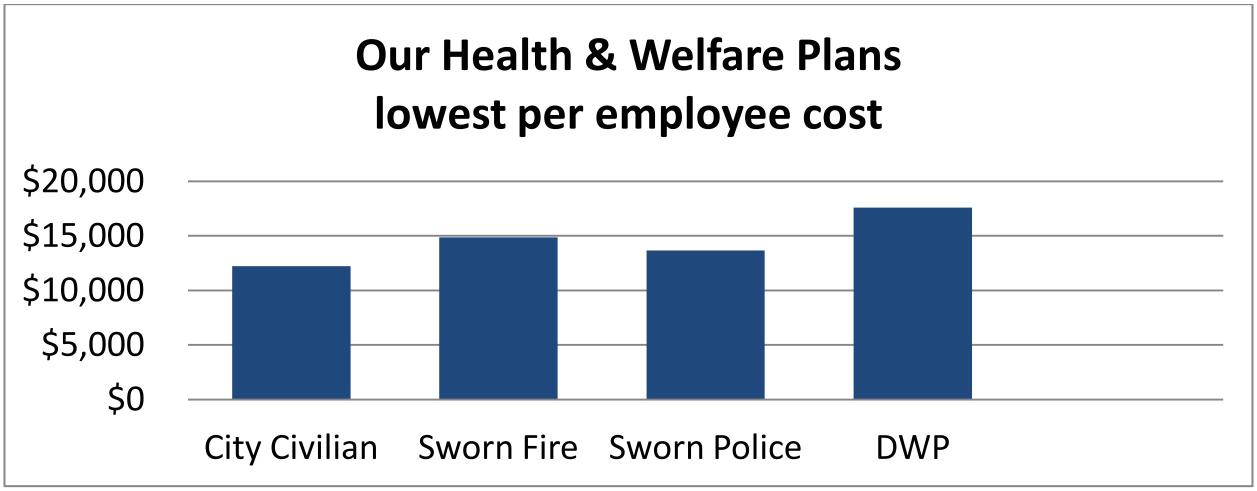
This was the result:

Table 3.



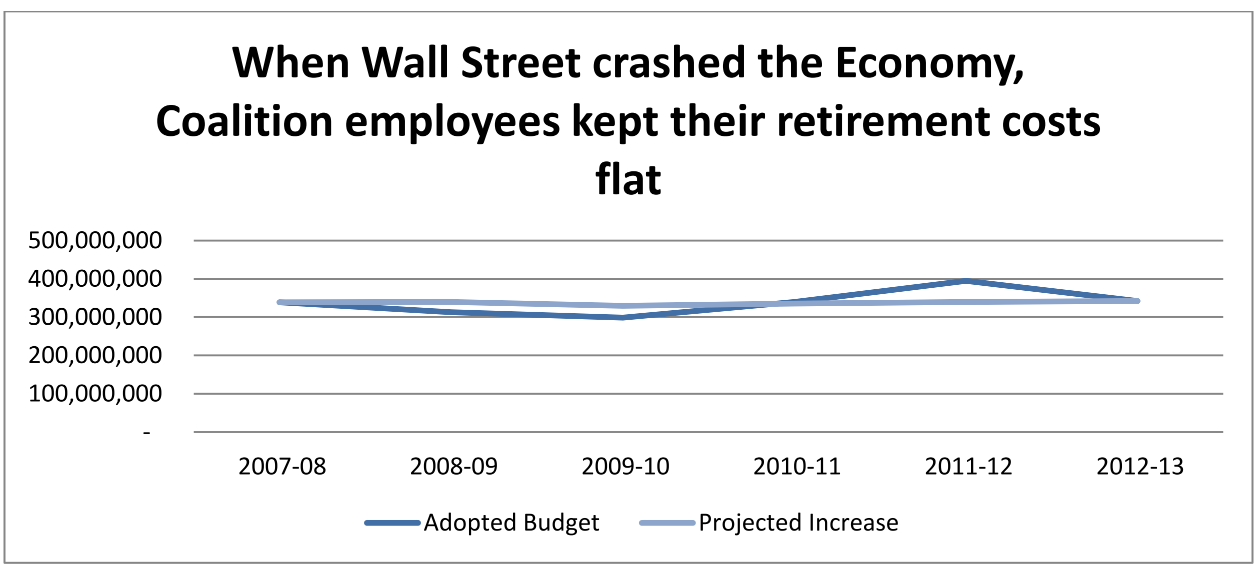
Furthermore, our healthcare costs are the lowest in the city's workforce.

Table 4.



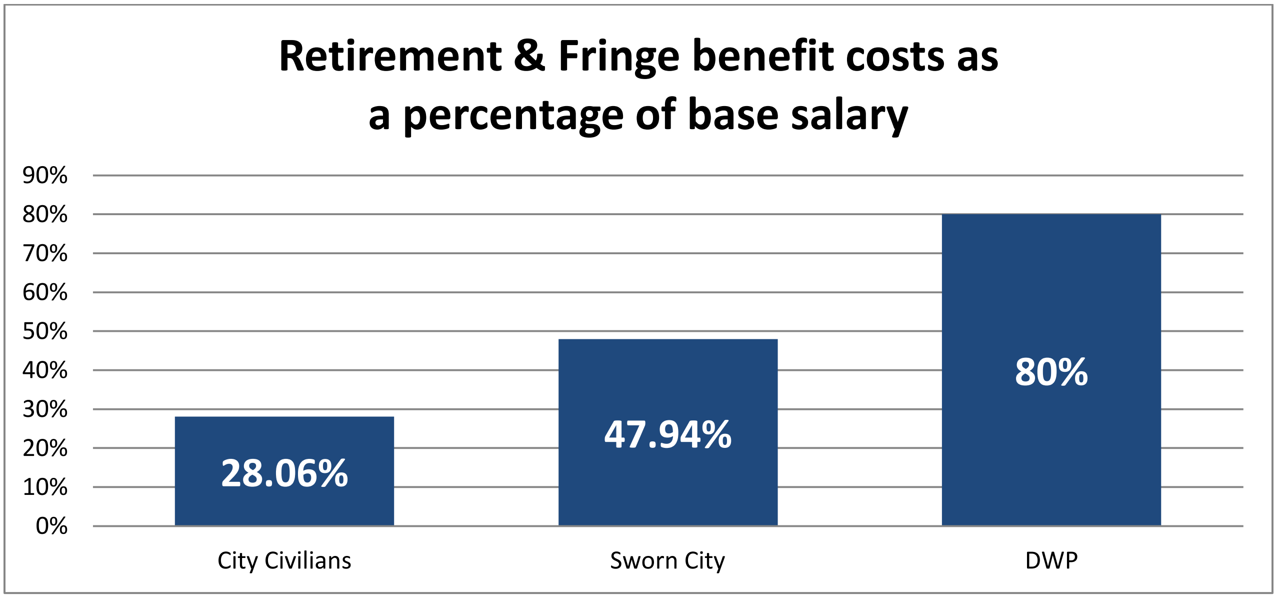
While some other groups of city employees kept their retirement contributions at status quo, our members agreed to increase payments from 6 percent to 11 percent of their salaries--far more than even recent state law pension reforms will ultimately require of public employees elsewhere in California.

Table 5.



Furthermore, our "Add/Delete" retirement costs per employee are about half the cost of current sworn employees.

Table 6.

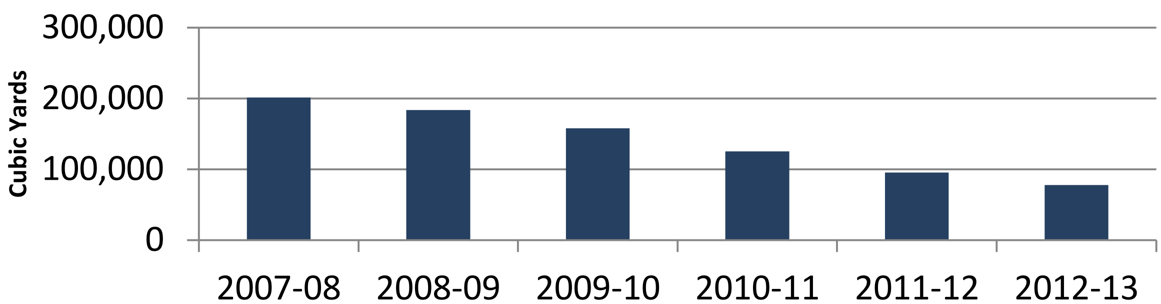


2. Effects of the City's Austerity Approach on Neighborhoods

In the spirit of going "Back to Basics," we have reviewed the City's Comprehensive Annual Financial Statements to document impacts to key service and financial trends. City Council is keenly aware of the cuts the City has made over the course of the last five years. These cuts caused by the Wall Street crash have had tangible impacts on Los Angeles neighborhoods, as the City sharply reduced services to cope with the recession.

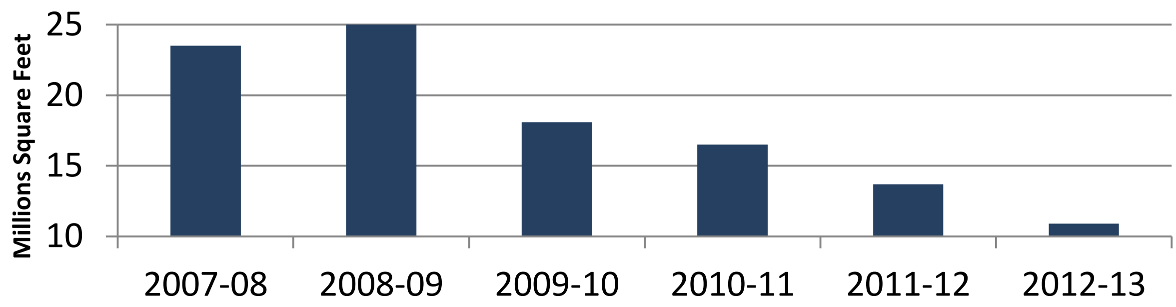
AUSTERITY IMPACTS TO OUR STREETS

Table 7: Street Services: Debris Removed



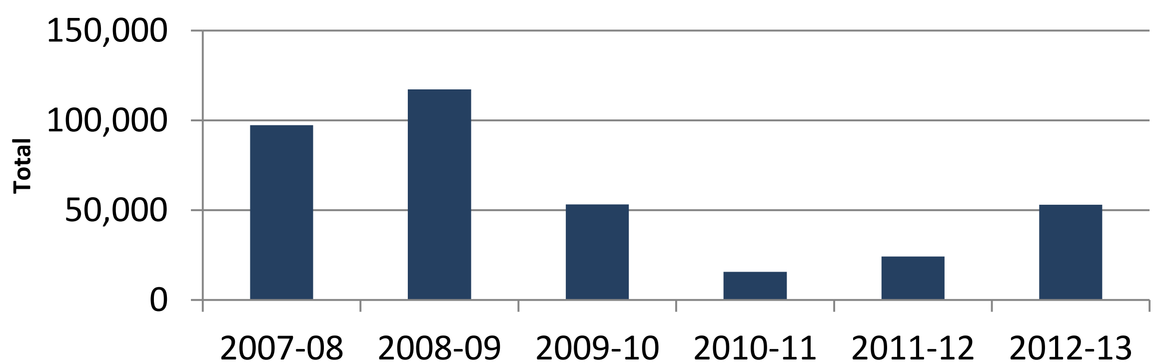
Street Services' capacity to remove debris has been reduced by about 61 percent since 2008.

Table 8: Street Services: Land Cleared



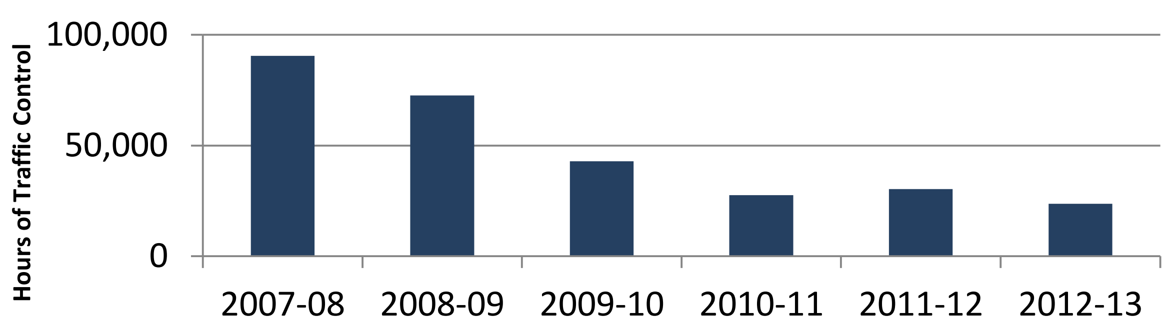
Street Services' capacity to clear land has been reduced by about 54 percent.

Table 9: Street Services: Trees Trimmed



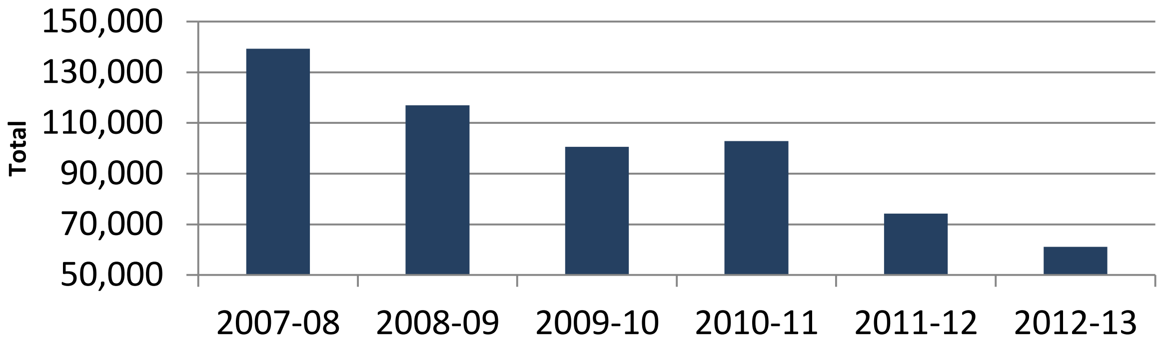
The City has dramatically reduced tree maintenance—endangering the health of our urban forest and creating public safety hazards with falling branches.

Table 10. Transportation: Intersection Traffic Control



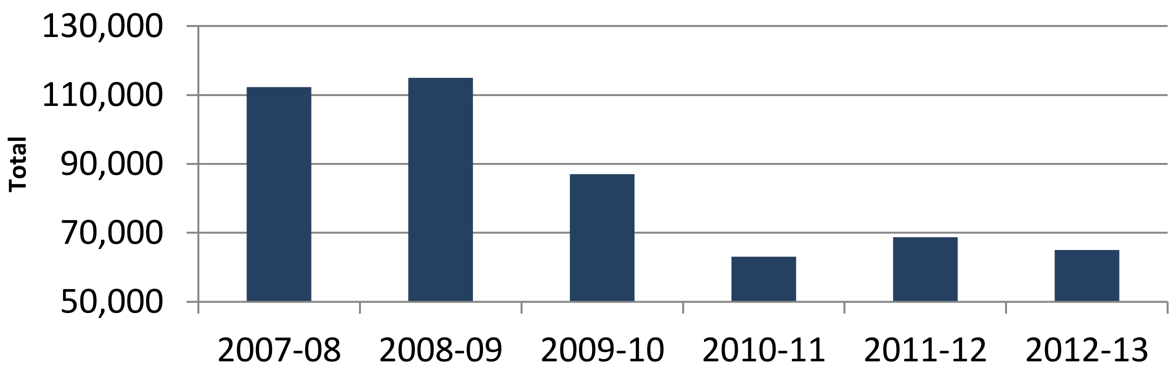
The City significantly reduced the number of traffic control offers at City intersections during peak hours, during times of technical dysfunctions, and during special events.

Table 11. Transportation: Abandoned Vehicles Abated



The City has dramatically reduced its ability to remove abandoned vehicles.

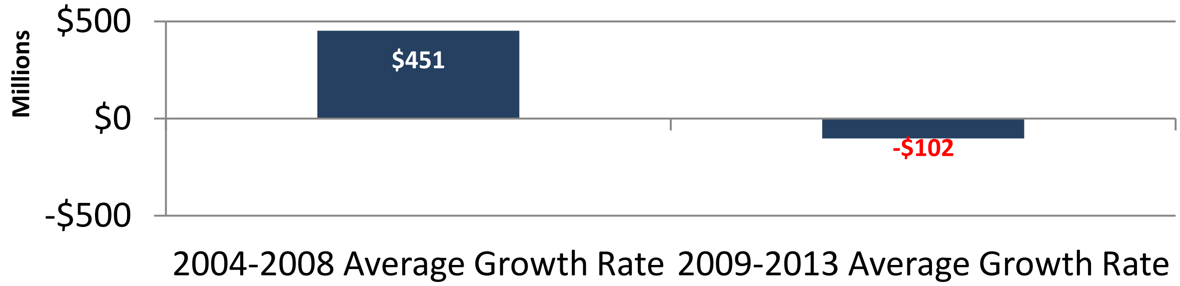
Table 12. Sanitation: Flood Control Catch Basin Cleaning



Flood control basin cleaning was basically cut in half. The EPA recommends that catch basins that contain trash be cleaned at least once a week to prevent hazardous material from entering the ocean and to prevent flooding.

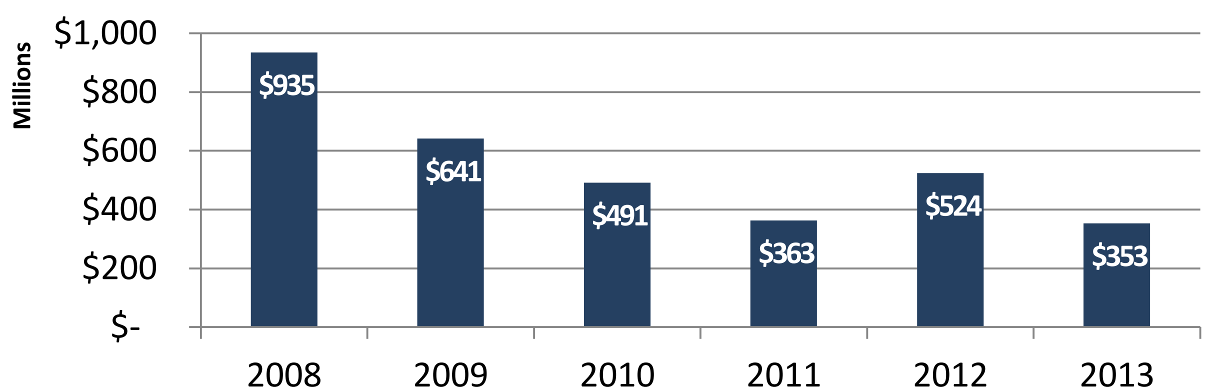
STATE OF THE CITY'S FINANCES

Table 13: Average Yearly Change in Governmental Activity Appropriations Pre- vs. Post-Recession



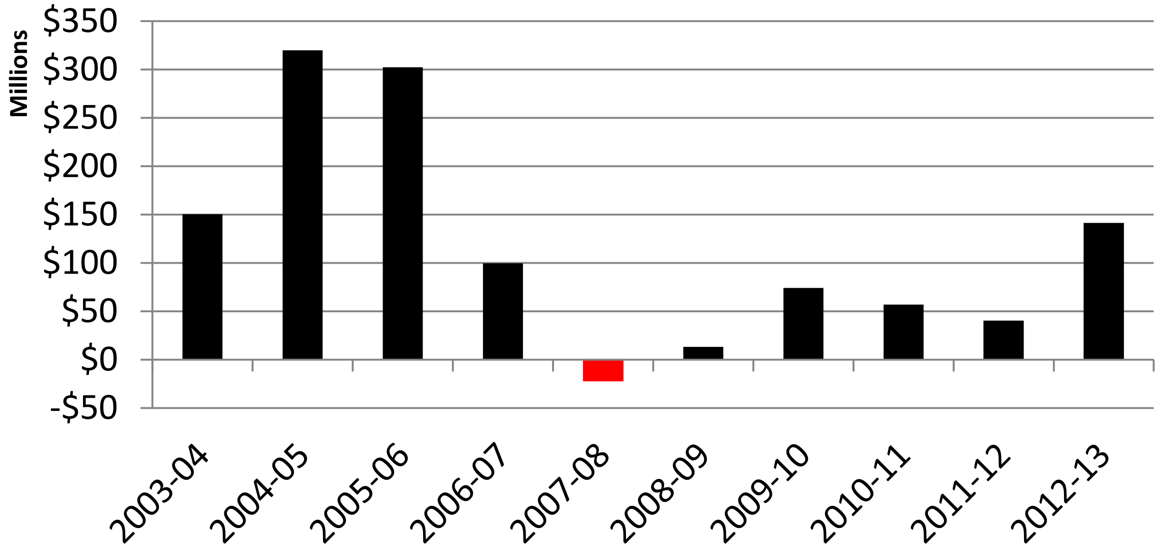
City Spending: the City managed to keep budgets in the black by making significant reductions in spending on governmental activities. In the five years leading up to the recession, the City, on average, increased appropriations by about $451 million per year. In the last five years, since the onset of the recession, the City has cut governmental activity spending by about $102 million on average per year. As Council is aware, the City began this year's budgetary process with another round of directed departmental cuts.

Table 14: Capital Spending



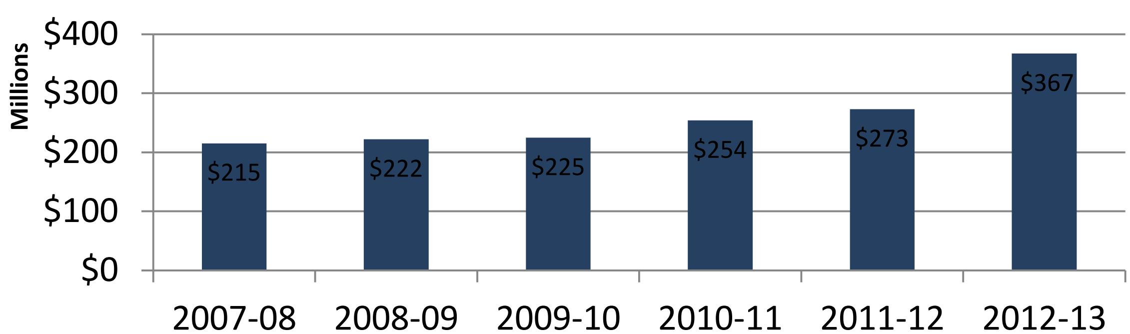
City Spending: the City will face significant long-term infrastructure problems and fall behind other cities in the region if it does not begin a process of infrastructure reinvestment that includes restoration of pre-recession funding.

Table 15: The General Fund at Year-end



The General Fund: the City's deep budgetary cuts, averaging about $102 million per year since 2008, have harmed neighborhoods, but maintained the City's stable financial position. The General Fund closed only one year with a net loss—in fiscal year 2008. In every year since, the City's General Fund closed with a net gain.

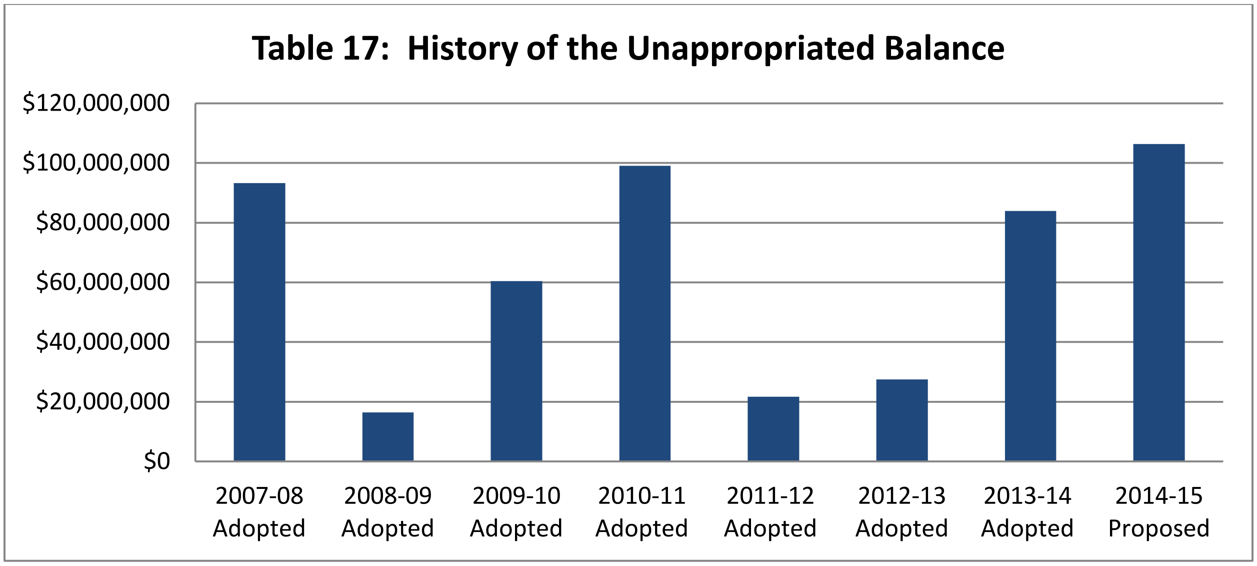
Table 16: Total Cash Available for Discretionary Appropriation in the General Fund



General Fund 'Reserves' have been growing. A portion of the net gains to the General Fund since 2008 have been added to the City's total liquidity in the General Fund. City 'reserves' at the end of 2013 were the highest they have been since 2006.

Between 2008 and 2013, the City has added about $152 million to reserves, and on top of Reserves created the “rainy day” Budget Stabilization Fund of $61.9 million to protect service delivery in the event of a disaster, whether natural or manufactured by Wall Street.

CHANGING THE COURSE FROM AUSTERITY DURING THE BUDGET



The proposed Unencumbered Balance within the Reserve Fund now exceeds pre-crash levels. This fund provides funds for appropriations after the budget is adopted to meet contingencies as they arise. A line item in the UB, “Reserve for Economic Uncertainties,” piques our interest as a source of funding to restore services. The line item is just two-years old, and in fact, did not exist during the most uncertain times the City has seen since the Depression. Last year, on top of the General Fund and Budget Stabilization Fund, this line item totaled $21 million. This year we have $17.5 million.

Additionally, this year’s Proposed Budget has a total Unencumbered Balance (UB) about $20 million higher than last year’s adopted budget. We are pleased to see the UB tag funds that will begin to repair our streets if so allocated by Council.

- $5M to reimburse Bureau of Sanitation special funds for front-funding the costs to expand the program to include the cleanup of alleyways and homeless encampments, and removal of illegal dumping on public properties.

- $20M for sidewalk repairs due to tree root damage.

- $5M for Healthy Streets citywide.

STRENGTHENING REVENUES – SHORT TERM

We remain puzzled and troubled by the city's failure to enforce its own revenue-generating law that heavily fines Wall Street banks for failing to maintain their foreclosed properties to neighborhood standards.

The law, passed in 2010, with fines of up to $1,000 a day, could have generated tens of millions of dollars in revenue and spared neighborhoods from blight, but has never been enforced. Not once.

We are told that the latest roadblock is a Federal court order from Chicago. The court there ruled that Federal law preempted that city from enforcing a similar law in certain cases against the Federal conservator for two of the nation's largest mortgage investors, known as Fannie Mae and Freddie Mac.[3] These were cases in which foreclosure proceedings had begun, and houses were vacant and not maintained, but foreclosure proceedings had not been concluded. However, the ruling explicitly did not address cases in which foreclosure proceedings had been concluded, and the conservator of Fannie Mae and Freddie Mac wound up owning, but not maintaining the properties.

Because Fannie Mae and Freddie Mac have their hands in about half the nation's mortgages, there is no doubt that the Federal court ruling, if upheld, would limits the city's enforcement reach. But there also seems to be no question it would not eliminate the city's ability to enforce the law on bank-owned properties.

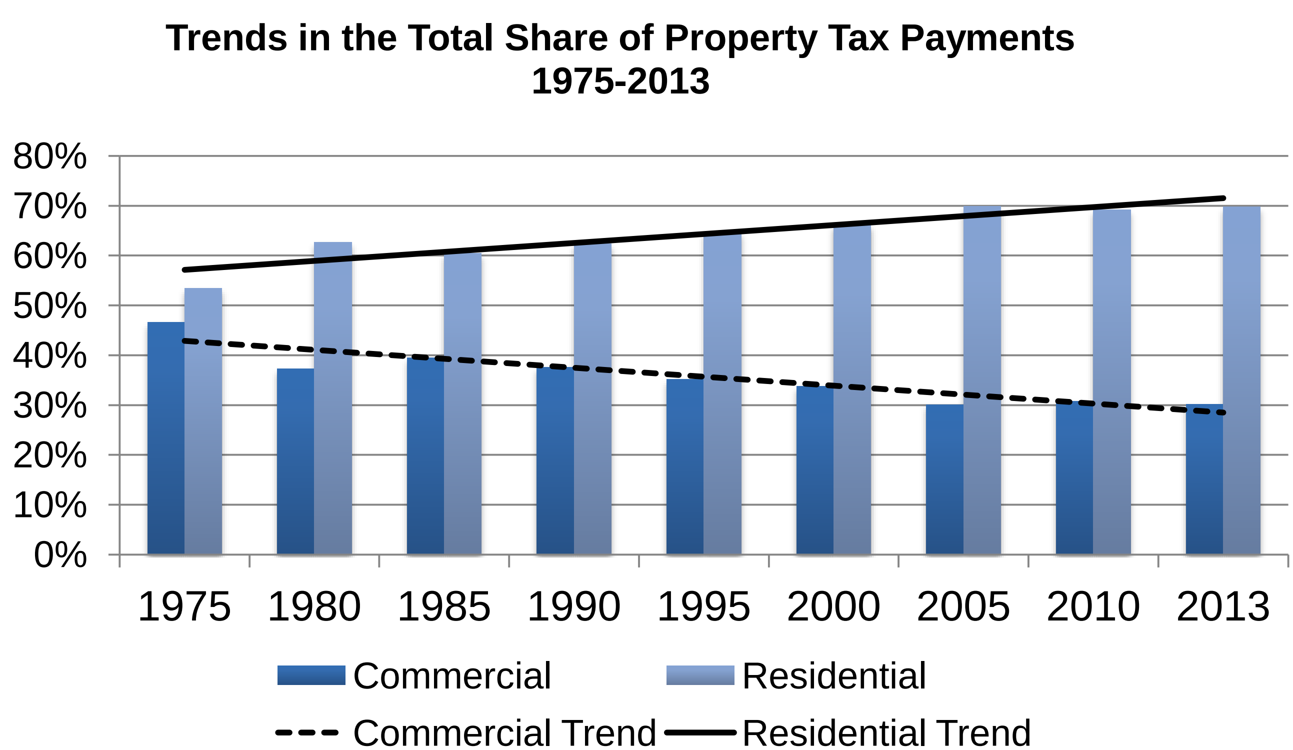
[3] The court case is Federal Housing Finance Agency v. City of Chicago, Case 1:11-cv-08795.

Although we believe Wall Street has managed to fleece taxpayers once again, we also believe there is still a need—and millions of dollars in revenues the city can collect in the short term—if the city enforces its law.

STRENGTHENING REVENUES—LONG TERM

The Coalition understands the difficult position of City policy makers who are forced to reconcile the realities of the 'new' economy (where the top 1 percent has a growing share of total wealth and governments are forced to cope with the realities of sharp revenue declines) with the City's ability to provide needed and desired services. We ask that the City partner with us to close a loophole that has allowed many commercial property owners to evade taxes in California. The loophole provides commercial property owners with a way to pretend that property has not changed hands, when in fact it has, thus avoiding reassessments that are supposed to be triggered when property changes hands.

In part, because of this loophole, the share of total property taxes paid has shifted dramatically to residential property owners from commercial property owners since 1975.



This is true although advocates for Proposition 13 said it would not be the case. They promised in a ballot argument: "Proposition 13 will NOT give business a NEW WINDFALL."

SEIU Local 721 has calculated, based on data from the Board of Equalization, that the City could increase its property tax revenues by at least $129 million per year and as much as $280 million per year if legislation were approved at the state level to close the loophole and assess all commercial properties at market value. We urge you to endorse such legislation with us.

3. Changing the Conversation about Wall Street

On an annual basis, the City of Los Angeles does hundreds of millions of dollars in business with Wall Street banks for investment management, debt management, and banking services. The purpose of these financial services is to help fund public services and finance public improvement projects such as street and storm drain repairs, and to pay for construction of public facilities, including police and fire stations and other neighborhood service facilities.

Since the banks crashed the economy in 2008, hundreds of millions in cuts have been made to critical city services that keep LA neighborhoods healthy, clean, and safe. Yet, today and throughout the recession, Wall Street banks continue to profit off of Los Angeles and other cities and municipalities across the Nation.

There is a growing body of evidence suggesting that banks have engaged in predatory lending practices when providing municipal financing to cities and government agencies through the transaction of deals, such as issuance of debt, that carry high fees, high interest rates, unnecessarily high-risk and complex structures to the benefit of the financial institutions with the promise that these deals would save taxpayers money. Instead, these deals have stripped precious tax dollars from our City and put it into the hands of Wall Street banks.

According to a recent Brookings Institute study, "municipal borrowers are leaving billions of dollars on the table every year because of borrowing costs, fees, and other transaction costs. These are a drain on our budgets; make investments in education, infrastructure, healthcare, and utilities more expensive; and reduce returns for investors."[4]

[4] "Lowering Borrowing Costs for States and Municipalities Through Common Muni," by Andrew Ang, professor of economics at Columbia University, and Richard C. Green, professor of economics at Carnegie-Mellon University, Page 6 of Full Report available online at http://www.brookings.edu/research/papers/2011/02/municipal-bond-ang-green.

We have also learned in recent years that banks have engaged in illegal practices that have severely impacted municipal finance at the expense of taxpayers. For example, in 2008, evidence of conspiracy among brokers and sellers of municipal securities to rig bids and to fix returns led the City to file a lawsuit, and numerous municipalities have joined in other lawsuits, involving the illegal manipulation of index interest rates such as LIBOR and the foreign exchange. As a result of the banks' illegal actions, the City has likely lost millions of dollars which could have been used to restore vital city services.

The City of Los Angeles, together with its airport, seaport, utilities, and pension funds, controls $106 billion that flows through financial institutions in the form of assets, payments, and debt issuance. The City needs to leverage its financial and economic power to demand better deals with Wall Street so that it can invest more in communities. New York Times financial columnist Gretchen Morgenson recently addressed the "trillion dollar question" of why municipal debt issuers don't press banks to reduce exorbitant refinancing fees. "Issuers that raise a lot of money in the debt markets," she observed, "have considerable leverage, given how much they pay Wall Street banks to underwrite their debt."[5]

We agree. Wall Street fees are negotiable. The City must take steps to reduce, renegotiate, and recoup fees paid to Wall Street.

TRANSPARENCY IS THE FIRST STEP IN ACHIEVING REAL SAVINGS FOR THE CITY

How much the city spends on Wall Street does not appear in any budget item and is far from transparent. There is no central repository of information accounting for how much Wall Street costs the City each year. Taxpayers deserve a full accounting of payments to Wall Street banks.

That will require that the City, including its proprietary departments and pension funds, fully disclose all fees paid to Wall Street and pledge to work collaboratively to reduce how much the City pays for financial services. Lack of transparency is a

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[5] Gretchen Morgenson, "How Banks Could Return the Favor," *The New York Times*, June 9, 2012 (online at www.nytimes.com/2012/06/10/business/banks-could-return-a-favor-to-governments-fair-game.html?_r=0).

hallmark of the financial services industry. Let's work together to change that in Los Angeles.

Since publishing our initial report last month on $204 million the city paid in Wall Street Fees [6] we have obtained more information about additional fees, which brings the total to $300.4 million per year. The revised total accounts for some fees we "missed" in our initial assessment of the City's records, as well as estimates for some fees for which we had been unable to assign dollar values. New values are in bold.

Table 18. Updated Fees and Payments Wall Street Collected from LA (12-13)

Type of Fee/Payment	Amount (millions)
Banking and Processing Fees	**$18,000,000**
Investment Management Fees	**$143,600,000**
Performance Fees on Private Investments (Private Equity, Hedge Funds, Real Estate)	**$75,890,943**
Swap Payments	$4,800,000
Letters of Credit	$17,900,000
Bond Issuance Costs	$12,900,000
Natural Gas Forward Contracts	$23,100,000
Financial Counsel, Dealer, Securities Lending, and Other Fees	$4,400,000
Total	**$300,390,943**

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BANKING AND PROCESSING FEES

According to the City's Inspector General, the City spends $18 million per year on bank service fees and credit and debit card processing fees (merchant service fees). That is $10.1 million more than we reported in our initial report. Of that $18 million, 82 percent—or $14.76 million—is spent on merchant service fees with a single contractor.

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[6] The report, entitled "No Small Fees," is available online at http://d3n8a8pro7vhmx.cloudfront.net/seiu721/pages/1/attachments/original/1395715866/No_Small_Fees_A_Report_by_the_Fix_LA_Coalition.pdf?1395715866

According to the Office of Finance, the City will have the opportunity to terminate or renegotiate that 25-year contract in 2016. s In keeping with the Inspector General's goals, the City should begin exploring options now to release a new RFP to select a more competitively priced vendor or to renegotiate with the current vendor. We propose that the Council expand the reportback in Exhibit H directing the Office of Finance to review credit card transactions and opportunities to renegotiate for all uses by the City, not just for parking meters.

Reducing the City's costs by one-third would save the City $5 million per year.

ESTIMATED INVESTMENT MANAGEMENT FEES

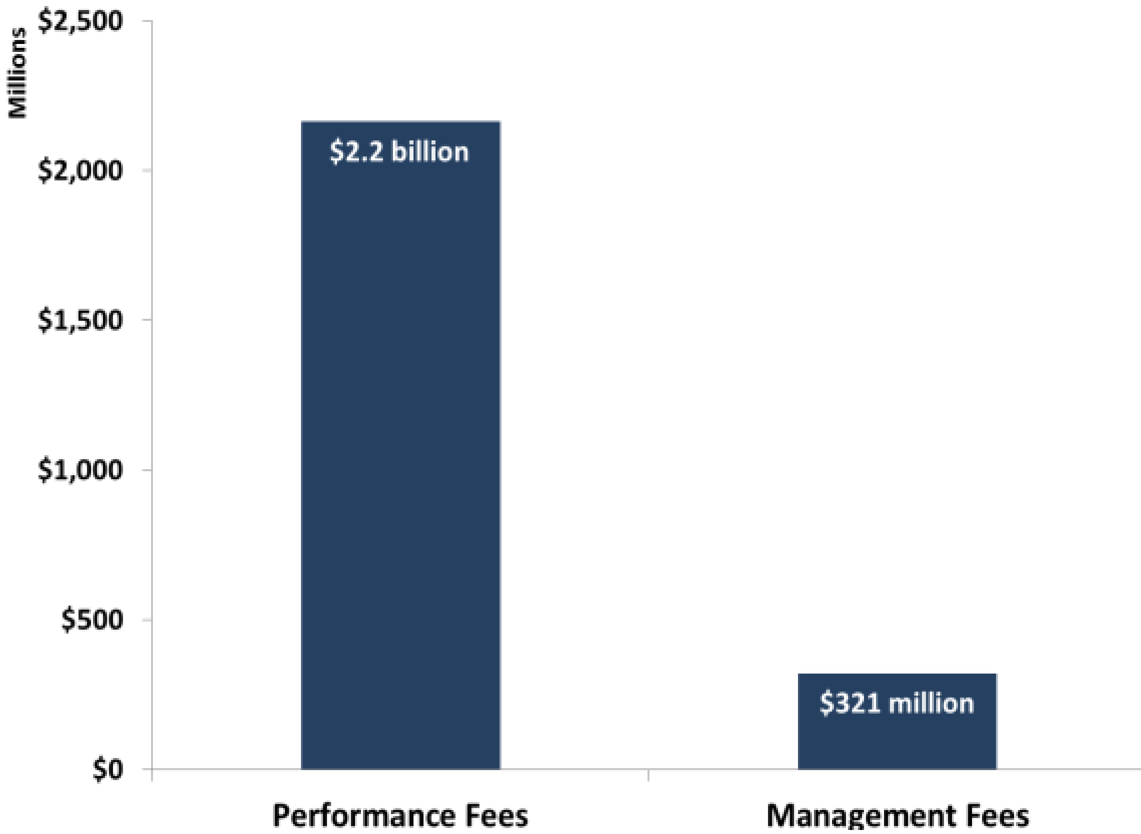
Last year, the City's treasurer invested more than $7 billion in assets. Although we did not identify the exact amount of the management fees associated with these investments, we base our estimate on extensive consultations with academic experts and current and former private equity and hedge fund managers. We conservatively estimate a yearly fee rate of .15% of total assets managed bringing the total for investment management fees from $133.1 million to $143.6 million.

PERFORMANCE FEES FOR PRIVATE EQUITY AND HEDGE FUNDS

The City's three pension funds pay an enormous amount in fees—$133.1 million just last year—to Wall Street fund managers. Yet that amount represents only a portion of fees paid since all of the performance fees charged on private equity and hedge fund profits are taken off the top of the returns received by the pension funds. In fact, neither the boards nor the investment staff employed by the boards know how much they pay in total fees. Why? Because private equity and hedge funds do not want that information public.

Private equity and hedge fund managers typically receive 20 percent of the profits after meeting a minimum investment return (the so-called hurdle is often 8 percent). The performance fees for successful private investment fund managers are substantial and often dwarf the fees paid strictly for investment management (typically 2 percent of assets managed). Collectively, the management and performance fees are often referred to as "the 2 and 20."

Table 19. Apollo Private Investments: Performance vs. Management Fees



In order to estimate what the City's three pension funds pay in performance fees each year, we compared the total fees reported in Security and Exchange Commission reports and other publicly available documents for three major firms--Apollo, KKR, and Blackstone—which charge, respectively, 6 percent, 3.17 percent, and 2.65 percent of the total private investments managed. We used the average of these percentages—3.94 percent of total private investments managed—to estimate the total amount of performance fees paid collectively by the city's three pension funds, LACERS, LAFPP, and WPERP: $75,890,943.

RENEGOTIATE FEES AND INSOURCE INVESTMENT MANAGEMENT

The City's three pension funds could collectively save tens of millions of dollars per year by sharing fund managers, pushing to reduce fees by 10 percent, and hiring their own Wall Street fund managers and allowing them to directly invest in private equity and other alternative asset investments. In other words, cut out the middle man.

One prime example of how insourcing Wall Street talent can change the rules of the game is the success and growth of the Ontario Teachers' Pension Plan (OTPP) in Canada. OTPP began insourcing talent in 1990. By recruiting their own Wall Street investors, the plan avoids the hefty management and performance fees charged by outside firms particularly in private equity and hedge funds.

The OTPP has consistently maintained impressive returns on its investments. In March 2012, the Economist reported that over the last 10 years, the Ontario Teachers' Pension Plan had the highest total returns of the biggest 330 public and private pension funds in the world. Moreover, the OTPP's internal private equity operation costs are only 0.5% of total investments.[7] Although the size and scope of the OTPP operation may not be achievable by any of the city's pension funds individually, the City can leverage the collective assets of the funds to negotiate better deals with Wall Street.

If the City reduced management and performance fees by just 10 percent, it would save $22 million per year.

INTEREST RATE SWAPS

Banks like NY Mellon, JPMorgan Chase, Bank of America, and Goldman Sachs initially marketed derivative deals with the promise that they would help state and local governments reduce their cost of borrowing for public improvement

[7] John Lorinc, Ontario Teachers Have the World's Best-Performing Retirement Fund. Is It a Model for the Rest of Us? Ontario Teachers' Pension Plan (online at www.otpp.com/news/article/-/article/698669).

projects. In a typical deal, a state or local government agreed to “swap” interest rates on variable-rate bonds, with the government paying the bank a fixed rate in exchange for a variable payment that would track the interest due on the bonds.

If interest rates were projected accurately, the payments would more or less balance out over the life of the contract and the public entity would end up with something similar to a fixed-rate bond.

Derivatives, however, have turned into a windfall for banks and a nightmare for taxpayers. In the wake of the financial collapse, the federal government aggressively drove down interest rates to save the big banks and spur economic recovery. The unintended consequence was the creation of an opportunity for banks—whose variable payments were tied to prevailing interest rates—to reap a tremendous profit from the deals. While banks are still collecting fixed rates of 3 to 6 percent, they are now regularly paying public entities as a little as a tenth of one percent on the outstanding bonds, with rates expected to remain low in the future.

The City entered into an interest rate swap deal with NY Mellon Bank and Dexia in 2006. In 1988, the City issued a Wastewater System Revenue Bond to fund capital improvements to the sewer system. In an effort to take advantage of lower interest rates that existed at the time, these bonds were refinanced in 2006 from a fixed rate to a variable rate.

Variable rate bonds are like adjustable-rate mortgages. They can save the City money in the short run, but there is always the risk of spiking interest rates down the line. In order to protect itself from this type of risk, the City entered into “interest rate swap” agreements with NY Mellon and Dexia. In one particular interest rate swap, the City agreed to pay these banks a steady fixed interest rate of 3.34 percent, and NY Mellon and Dexia agreed to pay the City a variable rate that the City could use to pay the interest on the bonds.

Unfortunately, this deal soured in 2008 when the economy crashed, and the bottom fell out of interest rates when the Federal Reserve intervened by cutting interest rates to near zero as a means to give banks access to cheap money. The crash, and the subsequent and prolonged cuts to interest rates, were unforeseeable events that radically changed the basic assumptions upon which these swap deals were based.

Instead of saving money by entering into this swap deal, the City found itself locked into a fixed rate substantially above market rate while NY Mellon and Dexia were able to take advantage of variable interest rates that were kept artificially low by the Fed. As a result, NY Mellon Bank and Dexia have been and will be able to pocket the difference of $4.8 million a year. Since 2008, NY Mellon and Dexia have unfairly profited to the tune of $65 million at the expense of Los Angeles taxpayers, including $26.1 million that the City had to pay in 2012 to terminate a portion of these toxic swaps. NY Mellon and Dexia want the City to pay $24 million more to exit this remaining bad deal.

If the City does nothing on these existing swaps, we stand to lose an additional $69 million at current interest rates because we are locked into the swap deals through 2028. On May 2, 2014, LA City Councilman Paul Koretz introduced a motion that calls on NY Mellon and Dexia to either renegotiate contracts with the city at no cost, or for the City Council to terminate business with the banks altogether if they refuse. According to Councilman Koretz, "New York Mellon Bank and Dexia need to do what many others have done for the sake of this city, and that is to make sacrifices, not obscene profits."[8] We agree and applaud Councilman Koretz for taking a stand against Wall Street greed.

The Council must call on NY Mellon Bank and Dexia to renegotiate or terminate these interest rate swap deals with no additional fees, and call on NY Mellon Bank and Dexia to return the unfair profits and termination payments since 2008. We propose that the Council request that the Office of Finance staff, along with the

[8] Soumya Karlamangla, "L.A. Councilman wants Wall Street Banks to Cut Bond Refinance Fees", *Los Angeles Times* (May 2, 2014) (online at http://touch.latimes.com/#section/-1/article/p2p-80083608/).

CAO and the CLA, and any other appropriate departments, to report back to Budget and Finance Committee in 30 days on the progress of negotiations.

USE GOVERNMENT ENTITIES TO PROVIDE LETTERS OF CREDIT

Our initial report, entitled "No Small Fees," documented that we spent $17.9 million last year on letters of credit to insure the City's variable rate debt. Letters of credit are essentially insurance policies that would allow the city to continue to pay bills if the market for its bonds dried up, while providing assurance to bond investors that the bond could be redeemed on demand. The banks charge the City anywhere from 29 to 125 basis points (.29 to 1.25 percent) annually to provide that insurance.

The City should consider asking that the city's pension funds provide letters of credit for the City's variable rate debt. Because letters of credit are insurance policies on debt,no money leaves the government entity unless the city defaults on its debt, which has never happened.

In addition, several states have credit enhancement programs that allow the state to provide low-risk and low-cost bond guarantees to local government entities to increase their access to needed capital and to reduce their cost of borrowing. These states often have a dedicated set of funds to guarantee local borrowing, with the promise of stepping in to make payments if and when the local borrower cannot.[9] There are at least 34 credit enhancement programs in 24 states.[10] One example is the state of Washington, which currently has $15.6 billion worth of school bonds guaranteed.[11] According to the Washington State treasurer's Web site, "The state's independent financial advisor estimated in November 2013 that the program saves taxpayers around $10 million per year. The state has not been called upon to pay debt service on any school debt."[12]

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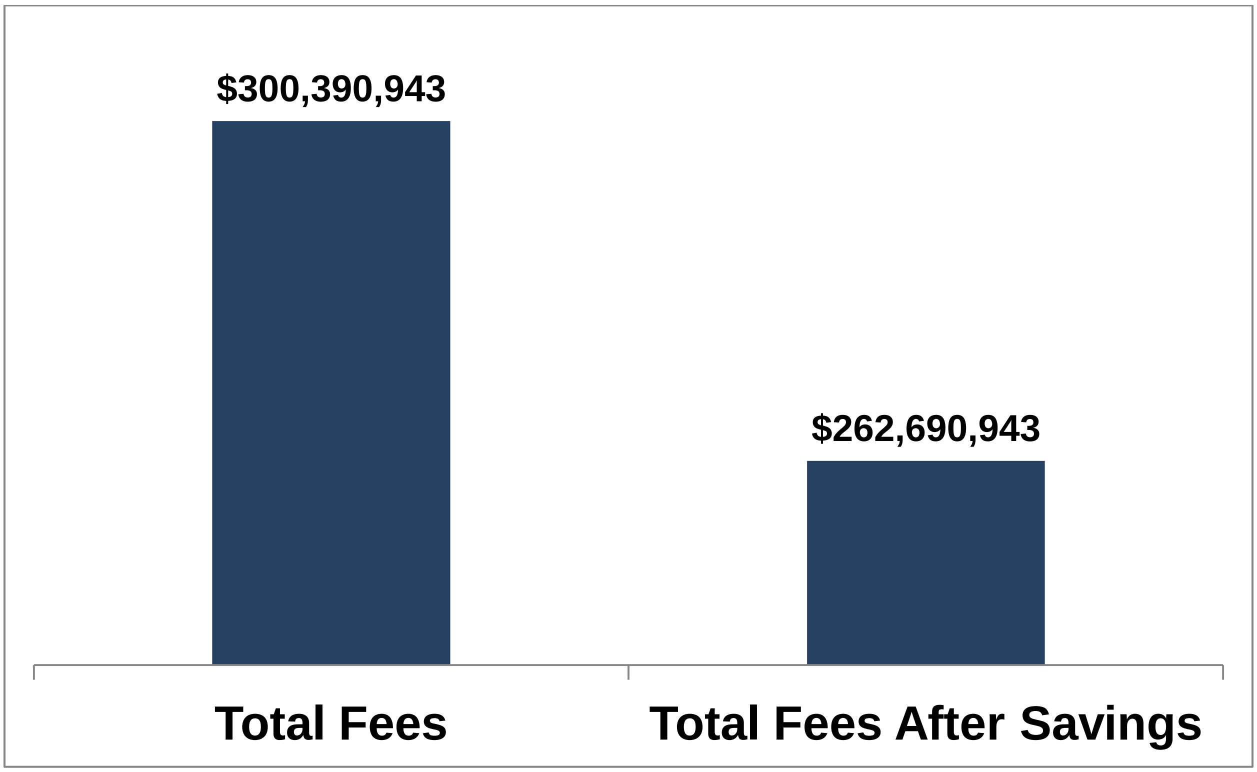
[9] http://corporate.morningstar.com/us/documents/samplereports/statepermanentfunds.pdf
[10] http://www.breckinridge.com/insights/whitepapers.html?id=1240
[11] http://www.tre.wa.gov/government/schoolBondGuarantee.shtml
[12] http://www.tre.wa.gov/government/schoolBondGuarantee.shtml

If government entities charged the City only one-third less than it pays Wall Street now, the City would save $5,900,000 per year.

The City of Los Angeles must fundamentally change its conversation with Wall Street—fees are negotiable. If successful, our proposed fee reductions would save the City $33.7 million—revenue that is sorely needed to restore vital public services to Angelenos.

Table 19: Estimated Cost Savings



4. Quality jobs and City efficiencies

GOOD JOBS –THE PUBLIC SECTOR & ECONOMIC DEVELOPMENT

As representatives of working people, the Coalition is committed to the elimination of poverty through the creation of good jobs. However, aside from wrongful vilification of our members, the public sector has been left out of the larger economic development discussion, even though it is in fact LA's largest industry sector.

According to U.S. Census data on the LA Metro area, State and Local Governments top the industry roster with 509,000 employees. That represents more than 25 percent of the LA Metro workforce.

Table 20: US Census Industry Sector NAICS data (in thousands)

With 44,947 employees, the City of LA makes up about 9 percent of that total State and Local Government pie. But the City is the single largest employer within LA City limits, as listed in the most recent CAFR.

Table 21: City of L.A. is largest employer in city limits

Employer	# Employees
City of Los Angeles	44,947
County of Los Angeles	40,691
Los Angeles Unified School District	36,881
UCLA	32,300
Cedars Sinai Medical Center	17,000
USC	16,623
Kaiser Foundation Hospitals	11,775
Veterans Health Administration	10,400
Farmers Insurance Group	9,167
Team One Employment Specialists LLC	5,000
US Postal Service	1,500

As we recover from the Wall Street crash, City jobs should be viewed in the context of their role in overall economic development. Loss of public sector jobs—and taking money out of the pockets of city workers in other ways-- hurts the local economy.

The Economic Policy Institute (EPI) has quantified this impact in a formula. For every dollar cut in salary and supplies of public-sector workers, another $0.24 is lost in purchasing power. Furthermore, EPI calculates that loss of one job in the public sector results in loss of two-thirds of a private sector job. Based on this formula, the loss of 5,000 good city jobs resulted in a corresponding loss of 3,500 private sector jobs.[13]

[13] Heidi Shierholz and Josh Bivens - July 2012 http://www.epi.org/blog/years-recovery-state-local-austerity-hurt/

The Coalition recommends that the City Economic Development strategies include looking at the City's place in the economy as a job creator, and work with the Coalition in finding ways to bring more Angelenos into the City's good jobs.

TEMPORARY WORKERS EMPLOYED BY THE CITY OF LA

As the biggest employer in the City, the City should also be the best, a model employer, for the rest of LA. But this proposed budget creates very few new good civilian full- time jobs, and increases to $5 million amounts allocated to createdead-end, temporary jobs. Academic and policy literature on the effects of a temp service economy show that temp workers are twice as likely to live in poverty.[14] The City does no justice to our community by attracting workers with the promise of getting them into a good City job, only for them to find out later that is an impossible dream.

As the Committee has heard, our members know there are temps (coded in City-speak as "As needed/ Intermittent Temporary Part time" workers) who have worked decades for the City, have valuable knowledge, provide good service, but are not allowed to step onto the City's career ladder. Additionally, temporary positions create the complete opposite of a long term solution to service continuity. Our members have testified service impacts created by a lack of continuity in doing City work.

For this public conversation, we're calling "As Needed" workers "temps," because it can get confusing following the difference among four types of City workers, listed here in the interest of transparency.

1. "Regular" workers have normal, full time jobs, working for at least 2080 hours in a year. They receive full benefits and are placed on a career path that lets them climb a ladder to success.

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[14] Miranda Dietz, August 2012, Temporary Workers in California are Twice as Likely as Non-Temps to Live in Poverty: Problems with Temporary and Subcontracted Work in California http://laborcenter.berkeley.edu/jobquality/temp_workers.pdf

2. “Resolution Authority” positions are full time for one year’s budget only, though they may be reauthorized or regularized in future budgets. They do receive benefits.
3. “Half-time” employees are considered “Regular” positions, working at least 1000 hours in a year. They receive benefits equivalent to half of a full time regular employee, and can advance in a career path.
4. “As needed, Intermittent Temporary Employees” work 1,000 hours or less in a year. They have no benefits, not even Social Security. They do not get credit for time served if they manage to get a half time or full time position. They may work for the City for decades, being laid off just before they hit 1,000 hours, and then rehired with a new start date.

We acknowledge there are many legitimate situations to employ workers less than 1,000, hours. In fact in some situations, such as with Animal Services creating a pilot Animal Licensing Canvasing program, we advocate for using temps, the right way. We’re pleased that the Animal Services Department will be staring up that program in the next budget year.

But “As Needed” positions in this Budget must be closely evaluated to avoid abuses. In addition to earning less, temps are deprived of the ability to climb a career service ladder, as their positions exist outside the normal City Civil Service rules. Job security is much more tenuous, even when represented by a Union. The City has recently taken the position that temps are not covered by layoff language in the Coalition MOUs, despite clear language that states “all employees” have the same rights. We have filed legal actions on behalf of Convention Center workers, displaced right before Christmas, and for workers employed at 24 parking garages that were outsourced by the City.

State Labor Code regulates use of private Temporary Agency workers in public agencies, preventing serial hiring and firing by limiting the number of hours for which a temp employee can be used in a year. The Code exists to prevent exploitation and the erosion of the career ladder in the Civil Service system, but does not apply to a public agency directly hiring temps. The real solution lies in figuring out together where work really is and is not temporary. We highlight four problem areas, and expect there are more.

1. **Building and Safety Clerical work.** The department proposes to spend $1.4 million to create clerical temps "to maintain a flexible workforce." For service delivery continuity, the Department should hire regular employees, full time or half time. Clerical positions in the Department are down 16% since Wall Street crashed our economy. With the restoration of the Department, after the proposed merger with the Planning Department was taken off the table, it is more clear than ever than the department needs regular clerical staff. Knowledge of how systems work could not be more important in a department with a $86.6 million budget that has a regulatory and revenue generating purpose. Positions in the Department are 93% on Special Funds in the proposed Budget. Our members are not OK with the Department trying to create positions that will be bad jobs, ripe for the serial hiring and firing abuse we have described.

2. **Sanitation Trash Truck drivers.** As noted during the hearings by our Sanitation members, there are temporary Refuse Collection Truck Operator IIs driving now and budgeted for next year, though the Department does not list a total cost. Trash truck drivers are most efficient when they have regular routes. Temps can have a harder time on the job because they don't have assignment continuity, and never can fully learn a route. Additionally, as Council is well aware, your constituents, our members' customers, often have attachments to their Trash men and women. It is a service area where continuity matters greatly to the public. It is also a job attractive to kids, who deserve career path jobs in their futures. Lastly, this is a department which has zero dependency on the General Fund.

3. **Transportation -- Crossing Guards.** The tragic loss of a mother hit by a car after she walked her child across the street to school weighs heavily on all in the City family. It also highlights what is a depleted and dedicated workforce whose members have been working as temps for years, kept

below the 1,000 hour threshold through deliberate manipulation of scheduling to deny them Half Time status. Workers who put their lives on the line to protect families deserve better treatment than they are currently receiving.

4. **Transportation – Part-time Parking Enforcement.** Council will be hearing from full time Parking Officers about the service delivery problems created by using a temporary job title to perform permanent work. The Budget proposes to spend $2.6 million on 150 temp officers. Some portion of the funds is derived by holding 43 vacant regular authority Traffic Officer II positions. While the Budget says that "the City will continue to backfill full-time Traffic Officer vacancies," there is no clarity about what that actually means. We also suggest that the Department be required to produce data to allow tracking the hours of these temps to see if they are serially hired and fired to avoid going over 1,000 hours. We appreciate Committee members asking for report backs on this issue.

We recommend the Budget and Finance Committee ask for report backs on the service and economic impacts on all Departments that have a large "As needed" workforce, or are significantly increasing their use of "As Needed" positions. An historical "look-back" of hire dates, dismissal, and rehire dates will show whether workers are being abused and service continuity compromised.

FIX LA STREETS AND RESTORE SERVICE CAPACITY BY INSOURCING

There is a large body of academic and policy writings on the negative effects of outsourcing public jobs to private contractors.. Coalition union members have been active on the issue, have participated in the creation of city wide Responsible Contractor & Living Wage Ordinances, and created contract language in our MOUs that require notice and the opportunity to show our members can do the work in-house prior to work being put out to bid.

The basic premise of why outsourcing public functions should be a last resort is simple. There is a value to the retention of institutional knowledge within a public agency. Once a public agency losses the ability to perform a core service, it is at the mercy of private bidders to produce the work, at a disadvantage in assessing that work, and cannot hold contractors accountable for performance in the same way it can with its own employees.

Cost savings arguments advanced by those opposed to public service ignore that ultimately a private contractor is motivated solely by profit. There are uncalculated costs to the City in executing contract bids, and then regulating contractors. We would welcome jointly inviting policy experts in the field who have helped reverse outsourced disasters like those that occurred in Chicago, with its citizen amputated parking meters. For now, the Bureau of Street Services has two areas that we recommend be insourced in this proposed budget.

1. **Tree Trimming.** As discussed in Budget hearings, our City tree trimming capacity has been decimated since the Wall Street crash. We are basically down to one crew that does emergency response arborist work. The $4 million slated for contract work would be much better invested in restoring the City's capacity to trim trees. We appreciate the Committee discussion on the issue and the attention paid to our members' expertise by the Public Works Commission.

2. **Sidewalk repair.** The City has been grappling with the liabilities created by broken sidewalks since before the Wall Street crash. Decades ago the City lapsed in collecting for sidewalk repair from homeowners, drying up the funding source for repair. Council knows this well as your offices now pay for repair out of discretionary funds. We appreciate that the Budget's framing of the $20 million allocated in the Unencumbered Balance for sidewalk repair creates the opportunity to expand the City workforce capacity to make repair residents need so desperately. We agree we urgently need to fix LA's sidewalks as a matter of public safety and resident quality of life. And as with tree trimming, we appreciate the Public Works Commission engaging with the real experts on service delivery, our members.

CIVILIANIZATION

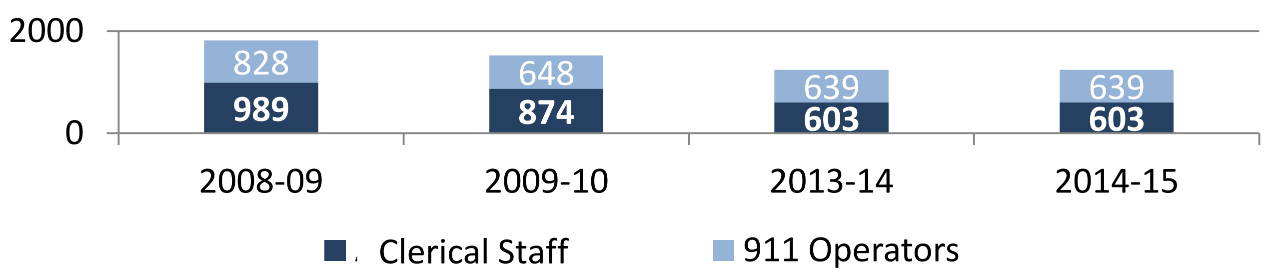
In the last two budgets, we have raised the issue of civilianization in the Police Department as a necessary efficiency. We appreciate that the Budget and Finance Committee requested a report back from the Chief of Police regarding sworn officers working in civilian posts and offer our analysis as well. According to the Supplemental Budget Book, the Department has 323 civilian vacancies this year. While crime is down, the demand for services is steady, and the civilian workforce depleted.

As the Budget and Finance Committee heard in public comment, light duty officers should be a supplement not a replacement for the civilian workforce. The workforce reduction among civilians has direct impacts on policing. Every employee of LAPD is a public safety worker. Patrol officers cannot function without dispatchers and the 911 operators. Detectives rely on the civilians who are fingerprint analysis, criminalists, polygraph examiners, just to name a few titles.

Every single civilian in the department supports sworn work. And everyone in the department relies on clerks processing information. Our members have reported an alarming trend in recording information about criminals as it comes it to the Records and Identification Division. Decline in staffing has resulted in a six month backlog on entry. Obviously that has direct impact on the information quality for policing.

For that reason it is critical that the City begin restoring these positions.

Table 22 Decline of Civilian Policing Clerical Staff



Jail Staffing

The Budget allocates 271 positions for Detention Officers. However, our members estimate there are about 300 police officers working in detention officer and property officer positions.

While we certainly understand the need for a number of light duty positions for Sworn Officers, there has not been data transparency about the number of Sworn Officers doing Civilian work. The department has reported a total number of officers on light duty, deployment, and adjudicative staff. But we're not sure the right workers are in the right jobs. The City needs to be using the most cost effective workers in the jails.

During the Budget hearing on LAPD, we heard a questionable assertion that was also made last year--that an entry level officer makes less than an entry level detention officer, and so somehow costs less.

We don't follow the math. Data points as we see them:

- The benefit roll up cost for civilian workers is half the cost for sworn, 28.06% vs. 47.94%.
- Healthcare plan costs for sworn are $1,440 more per employee vs. a Civilian.
- Per the Budget Blue Book, Detention Officers start at $49,548 and max out at $61,554.
- The Budget Blue Book provides only for Police Officer IIs, who start at $67,442.
- According to the Supplemental Budget book, the average Police Officer salary is $100,015.[15]

Going outside of the Budget documents, LAPD's recruitment website shows a Police Officer I & II Schedule A after Police academy graduation are at Step 3, earning $53,975, significantly less than what Council will budget, but also more than a starting Detention Officer salary.

[15] Supplementary book page 108 paper 115 PDF

We are not experts on the hiring of sworn officers, nor the changes for newly hired officers. But what we see budgeted for position salaries is the same historical starting wage $67,442, which means whatever the Department is doing with new hires may be different from the funds you are authorizing them to spend on Police II starting salaries.

The Coalition appreciates Committee requests on this issue. We recommend that the City ensure that the right worker is doing the right job, and create ongoing transparency about police staffing in civilian positions.

WORKERS COMPENSATION REFORM – END LITIGATION COSTS THROUGH AN ALTERNATIVE DISPUTE RESOLUTION PROCEDURE (ADR)

The CAO projects an astronomical increase in Workers Compensation costs, with a 96% increase for next year alone. Aligned with the Mayor's goal to "Reform Worker's Comp for better outcomes, lower costs," we repeat an efficiency proposal that the Coalition made last year for an Alternative Dispute Resolution Procedure, which has been implemented to great success by SEIU. Remaining Coalition unions endorsed the idea in 2011, suggesting the ADR program could be applied citywide.

Last year the CAO had little time to respond to the idea of the ADR in Budget hearings. But this is a program that can zero out City litigation costs. *This proposed budget sets aside $4 million in UB funds for Worker's Comp litigation. The City Attorney's office reported last year that the SEIU pilot program resulted in a 100% reduction in litigation costs.*

Like most of the best ideas, the notion came from workers. In 2004, SEIU members presented over 400 efficiency proposals to the City. The ADR began as a proposal that the City and workers "evaluate existing safety programs, involve workers in developing a labor management safety program; evaluate and upgrade the return-to-work program; implement test pilot of Workers Comp 'carve out' made permissive by recent changes to workers compensation laws and which could save millions."

The goal was and is to maximize the benefits of returning injured workers to the workplace more quickly by personalizing care, speeding up the process by ensuring specialty and rehabilitative medical care, and ensuring temporary work assignments for any injured worker.

Workers Compensation claims themselves are not going to disappear. Serious on-thejob injuries occur when performing intensive physical labor, managing LA traffic, or sitting for 8 hours at a desk built before computers. But the ADR program with SEIU has shown it is an idea that has better outcomes for both City workers and the City budget.

We recommend the City propose the Alternative Dispute Resolution (worker's comp carve out) program with all Unions, including those with closed contracts that may still be discussing work rules. It is a measure that will both save money and create a healthier workforce.

MANAGED HIRING

"Managed Hiring" was an austerity measure created along with a hiring freeze implemented in 2007 as a cost controlling measure to shrink the workforce. Whether they have available funding or not, most departments must go through the committee before they have hire people for civilian jobs. The process slows service restoration in painful ways.

The Coalition understands the process is used to control City costs. But as the City has met its General Fund Reserve target for the year, has a $61.9 million General Fund cushion in the Budget Stabilization fund, and the highest General Fund Unappropriated Balance in seven years, it's time for the City to move towards phasing out managed hiring.

As residents and Fix LA Coalition members call for repair of our streets, we made a public records act request of the Bureau of Street Services (BOSS) for the positions they've requested to fill through managed hiring. It shows the BOSS asking to hire the 62 people through what is called the "Managed Hiring" process.

Table 23. A Look at Managed Hiring: Bureau of Street Services

Program	Classification	Quantity	Submitted to CAO
CIP - Grants	Sr. MA I	1	Mar/2013
CIP - Grants	MA II	2	Mar/2013
CIP - Grants	Sr. Accountant	1	Mar/2013
Safety	Safety Engineer	1	May/2011 & Aug/2012
Various	Equipment Operators	23	Aug/2013
Various	Motor Sweeper Operators	17	Aug/2013
RRD	Asphalt Plant Operators	3	Jun/2013
Systems	Systems Analyst II	2	Oct/2013
Various	Street Services Supt	9	Dec/2013
Various	Sr Clerk Typists	2	May/2013
Various	Principal Clerk	1	May/2013

Note this is a department whose positions are 75% Special Funded. Though the hiring freeze was intended to generate General fund relief, Special Fund and Revenue Generating positions still have to go through this slow process for hiring. It is of great concern that a positions like a Safety Engineer languished for three years.

In illustrating the service quick sand of managed hiring, we are not "digging" at the CAO, whose department is itself constrained by the process and down staff since the Wall Street crash. In a recent report, the CAO acknowledged that the managed hiring system is not the best way to control expenditures.

Furthermore, we were pleased to hear during the Budget hearings a suggestion from the CAO that after this Budget passes, Departments could submit blanket "unfreeze" requests to increase the speed in hiring. Such a policy measure does not automatically mean that all Departments can then immediately hire to fill all their vacant positions; Departments would have to live within their budgeted means.

We recommend that Council order that a blanket unfreeze occur as part of passing the Budget. A blanket unfreeze would eliminate this bureaucratic sand trap that has made service restoration much slower, even for positions that are not General Fund dependent.

ATTACHEMENT ON COSTING METHODOLOGY

Costing Item	2010-11	2011-12	2012-13	2013-14	2014-15
Total LACERS Covered Payroll	$ 1,833,392,000	$ 1,819,270,000	$ 1,846,970,000	$ 1,783,000,000	$ 1,883,000,000
Estimated Avg. Civilian Salary	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000
Civilian Add/Delete Rate	24.50%	24.71%	24.14%	26.83%	28.06%
Avg. Health Cost	$9,867	$9,969	$10,649	$11,359	$12,494
ERIP / Hiring Freeze: Total Employees Lost	4208	4899	5356	5280	5280
ERIP/Hiring Freeze: Estimated Annual Savings to the City	$355,857,936	$415,410,705	$455,972,348	$461,772,960	$471,662,400
ERIP/Hiring Freeze: Estimated Total Annual Cost to Employees	-$18,333,920	-$18,192,700	-$18,469,700	-$17,830,000	-$18,830,000
6-11% Pension Contribution: Estimated City Savings and Employee Cost	$73,335,680	$72,770,800	$73,878,800	$71,320,000	$75,320,000

Costing Methodology	
ERIP and Hiring Freeze Savings	=((Estimated Avg. Civilian Salary *(1+Civilian Add/Delete Rate))+Avg. Health Cost)*ERIP / Hiring Freeze: Total Employees Lost
ERIP Estimated Total Annual Cost to Employees	=(Total LACERS Covererd Payroll)*.01
6% to 11% LACERS Contribution City Savings and Employee Cost	=(Total LACERS Covered Payroll)*.04

No Small Fees

LA Spends More on Wall Street than Our Streets

A Report by the Fix LA Coalition

March 25, 2014

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Invest in Our Streets, Not Wall Street

This report is brought to you by the ***Fix LA Coalition****, including Strategic Actions for a Just Economy (SAJE), Koreatown Immigrant Workers Alliance (KIWA), Strategic Concepts in Organizing and Policy Education (SCOPE), Southern Christian Leadership Conference (SCLC), Los Angeles County Federation of Labor, AFL-CIO; Alliance of Californians for Community Empowerment (ACCE), Community Coalition, SEIU Local 721, One LA, Inner City Struggle, Coalition of LA City Unions, People Organized for Westside Renewal (POWER) and AFSCME District Council 36.*

ACCE Alliance of Californians for Community Empowerment

KIWA WORKERS FOR JUSTICE

COMMUNITY COALITION people. power. progress.

LOCAL 721 SEIU

SCOPE STRATEGIC COMMUNITY AGENDA

COALITION OF LA CITY UNIONS

one LA IAF

AFSCME District Council 36

INNERCITY STRUGGLE Building a Movement FOR EDUCATIONAL JUSTICE

SOUTHERN CHRISTIAN LEADERSHIP CONFERENCE sclc Southern Christian Leadership Conference of Southern California

SAJE Strategic Actions for a Just Economy

POWER People Organized for Westside Renewal

L.A. UNION THE LOS ANGELES COUNTY FEDERATION OF LABOR, AFL-CIO

Executive Summary

When Wall Street recklessly crashed the economy in 2008, it brought a world of hurt onto many people. Wages tumbled. Unemployment soared. Money dried up for financing homes and businesses.

But Wall Street banks and corporations hardly felt the pain. Throughout the recession, Wall Street profited off Los Angeles. Just last year, Wall Street banks made more than $200 million in fees at taxpayers' expense.

At the same time, hundreds of millions in cuts have been made to the kinds of critical city services that keep LA neighborhoods healthy, clean and safe. LA stopped or deeply slashed sidewalk and street repairs, speed bump replacement, sewer inspections, alley clearance, vehicle abatement and a whole lot more. Our communities stopped getting what they need to thrive.

Where did the money go?

The amount of money in the overall economy has not diminished. It just wound up concentrated in fewer hands. The rich got richer, and the middle-class and poor got poorer. Big banks and corporations reaped ever greater profits at taxpayers' expense.

Six years after the crash, the challenge Los Angeles faces is how to get more of that money back into circulation to create more jobs and restore the public services that were gutted in the crash's wake.

Los Angeles is not meeting that challenge. In fact, it is heading in the wrong direction—spending more money on Wall Street than on our streets.

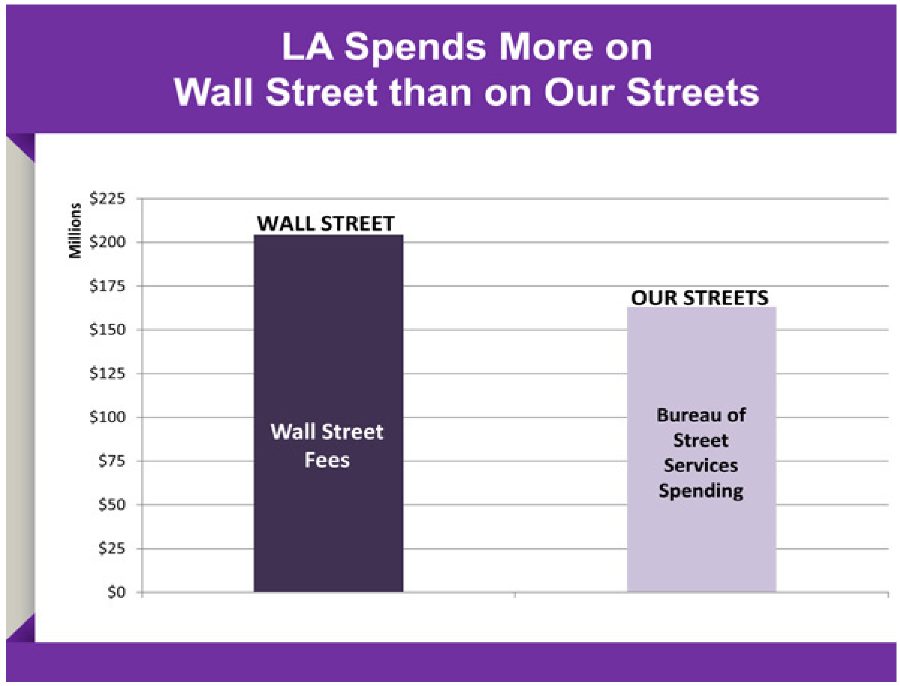
While public officials debate which services to slash, Wall Street banks collect more than $200 million a year from Los Angeles in fees for financial services—not counting principal or interest payments—draining the city of money it could use to fund neighborhood services. Wall Street has rigged the system in its favor and is getting rewarded handsomely for it, while regular Angelenos suffer.

We know it doesn't have to be this way. Wall Street should be held accountable for gouging Los Angeles.

City leaders have a choice: invest in our streets or Wall Street.

Key Findings

- **More to Wall Street than our streets:** The City of Los Angeles last year spent more on Wall Street fees than it did on our streets. It paid Wall Street $204 million in fees, spending only $163 million on the Bureau of Street Services. The city also controls $106 billion in financial and economic power that flows through its financial institutions that can be leveraged to demand better deals from Wall Street.



- **Millions in cuts to services:** The Wall Street crash reduced revenues and forced a 19% cut in City spending on governmental operations and activities when measured on a per capita basis in 2014 dollars. Basic neighborhood services have been halted or severely curtailed. The city has all but stopped repairing sidewalks, clearing alleys and installing speed bumps.

- **Corporations shifting the property tax burden:** As revenues have declined over time, debt has increased, while structural revenue problems are not being addressed. Property taxes are the largest source of LA city revenue and there's been a big shift in who pays them. In 1977, commercial property owners paid 46% of property taxes and residential owners paid 53%. Now, commercial property owners pay only 30% of property taxes, while residential property owners pay 70%. Existing tax loopholes are a big part of the problem. If the loopholes were closed and commercial property was reassessed at market value, Los Angeles would get an additional $200 million in property tax revenue each year, enough to restore many of the services that were cut.

Our Solutions to Fix LA

1. **Reduce fees to Wall Street and provide greater transparency:** Taxpayers deserve a full accounting of payments to Wall Street banks and we need to take steps to reduce, renegotiate and recoup fees paid to Wall Street so that we can invest in communities instead.

2. **Restore the neighborhood services Angelenos need:** Public services need to be funded and restored so that LA communities have what they need—clean, healthy, safe neighborhoods

3. **Fair share solutions:** The city needs to address the root causes of LA's financial problems and ensure the wealthiest individuals and corporations pay their fair share.

Part I

Wall Street Bankers Get $204 Million in Fees from LA

Wall Street banks collected $204 million from the City of Los Angeles last year, while services to ordinary residents were slashed.

"States and municipalities borrow money through the municipal bond market to finance important investments in schools, roads, bridges, public buildings, even water and electrical infrastructure. A growing body of evidence, however, suggests that state and local borrowing costs are too high. Given that the value of municipal bonds outstanding is roughly $2.9 trillion, municipal borrowers and their investors are leaving billions of dollars on the table every year because of borrowing costs, fees, and other transaction costs. These costs are a drain on state budgets; make investments in education, infrastructure, healthcare, and utilities more expensive; and reduce investment returns for investors."

—*The Hamilton Project, Brookings Institute*

Fees and Payments Wall Street Collected from LA (2012-2013)

Type of Fee/ Payment	Amount (Millions)	Fee/Payment Description
Bond issuance costs	**$12.9**	Each time the City or its agencies issue bonds, Wall Street charges fees for structuring and selling the bonds. Costs of issuance are one-time charges. They generally include an underwriter's discount and fees for a bond counsel, a disclosure counsel, a financial advisor and rating agencies.[1]
Remarketing fees	**$1.0**	Wall Street charges an annual fee for reselling existing debt to new debt holders.
Interest rate swap payments	**$4.8**	These are hedges sold to reduce the cost of variable rate bonds, but have instead increased costs to LA taxpayers every year since the crash.
Letters of credit	**$17.9**	The City pays banks for insurance on bonds and other notes with variable interest rates. The City also pays annual fees for letters of credit, whether it uses them or not.
Bank service fees	**$7.9**	Wells Fargo, American Express and U.S. Bank charged LA taxpayers $7.9 million last year for handling the City's cash.
Investment manager fees	**$133.1**	The City pays Wall Street firms annual management fees for investments involving the City's three pension funds.
Securities lending Income split fees	**$2.2**	Wall Street firms take a cut of the profits in several types of city investments. In the case of the Securities Lending Program, firms received 10 to 20 percent of investment income, resulting in an additional estimated $2.2 million paid by LA taxpayers last year.
Natural gas swaps	**$23.1**	Hedges sold to mitigate the risk of fluctuating gas prices.
Misc. dealer, service and termination fees	**$1.2**	

TOTAL $204 MILLION

Need for a Full Accounting of Wall Street Fees

The city makes no secret of how much it spends on our streets. The $163 million spent on streets is reported, plain as day, in the city's annual financial statement.[2] But the sum total $204 million paid to Wall Street is nowhere to be found. And this could be just the tip of the iceberg.

We arrived at it only by studying the records of nearly a dozen separate city departments, the city's contract database, its annual and quarterly budget and financial reports, the federal Electronic Municipal Market Access database, and publicly available reports published online by financial institutions with which the city contracts.

Alarmingly, we have concluded that the fees we were not able to document may exceed those we could document. The undocumented fees involve private equity investments whose terms are not subject to public disclosure.

This **lack of transparency** is a hallmark of the financial services industry, according to economists who have studied how it interacts with the many local and state governments that use it to borrow and invest public funds.

"Municipal markets are characterized by poor information and illiquidity," said Andrew Ang, professor of economics at Columbia Business School, and Richard C. Green, professor of economics at Tepper School of Business at Carnegie-Mellon University, in a report published by the Brookings Institution's Hamilton Project.[3] They concluded: "[T]he state and local governments that borrow money by issuing bonds and ordinary investors who buy those bonds pay billions of dollars each year in unnecessary fees, transaction costs and interest expense."[4]

Leveraging LA's $106 Billion in Economic Clout to Reduce Fees

Together, the City of Los Angeles, its airport, seaport, utilities and pension funds control $106 billion that flows through financial institutions in the form of assets, payments and debt issuance.[5] Wall Street profits from each of these flows of money not only through the multiple fees it charges, but also by lending or leveraging the city's deposited funds and by structuring deals in unnecessarily complex ways that generate significant commissions.

The city would have far more negotiating strength if it consolidated its dealings with Wall Street, instead of dispersing them among nearly a dozen departments. The city needs to leverage its $106 billion in financial and economic power to demand better deals with Wall Street, so that it can invest more in our communities.

LA Money Flowing through Financial Institutions (Millions)

	Liquid Assets	Debt	Cash	Total
City	$15,459	$1,963	$26,122	$43,544
Airport	$2,495	$1,105	$1,708	$5,308
Seaport	$537	$250	$604	$1,391
Utilities	$1,222	$2,289	$8,254	$11,765
Pension & OPEB	$43,810			$43,810
Total	$63,523	$5,607	$36,688	**$105,818**

Renegotiate Bad Deals that Cost Taxpayers Millions a Year

"[I]t is high time officials moved boldly to force the banks to break off the chain of disastrous swap contracts that have cost local authorities and states so much money."

—Thomas Ferguson and Robert A. Johnson, The Roosevelt Institute, LA Times OpEd

Wall Street sold many cities, states and school districts complex deals called "interest rate swaps" that were similar in their risky nature to the predatory mortgages they sold to homebuyers.

The deals were sold on the assumption that they would save LA taxpayers money. But after the banks crashed the economy, the federal government drove down interest rates as part of the bank bailout, and now the banks are reaping a windfall at taxpayers' expense. LA is currently paying $4.8 million annually to New York Mellon Bank. [6]

The City of Los Angeles is locked into a swap deal through 2028 that could cost taxpayers an additional **$65.8 million**.[7] New York Mellon won't let the city out of the toxic deal unless it pays **$24.7 million** in penalties to terminate the swap.[8] The city **already paid NY Mellon $26.1 million** in 2012 to terminate part of another swap[9] that was costing the city an additional $2.5 million per year.[10]

Take Legal Action to Recoup Losses from Bank Fraud

LA taxpayers appear to have lost another $1.6 million on these swap deals as a result of an interest rate-rigging scandal involving a number of banks. The banks conspired to rig an index called LIBOR to which swaps and many other deals are tied.[11]

Other cities, counties, pension funds and public entities—including nine in California—have already sued banks to recoup losses due to the rate-fixing.[12] LA should follow suit.

Demand a Better Deal for LA

The municipal finance market nationally is a $4 trillion business. It's supposed to exist to fund essential public services, but instead Los Angeles pays hundreds of millions every year to the biggest banks, while communities are forced to sacrifice with cuts to services. Wall Street has received a free pass, and the people most in need are forced to pay to fix the problems the banks caused.

We need to leverage LA's financial and economic power to demand a better deal with Wall Street so that we can invest in our communities.

Part II

Big Cuts to LA Neighborhood Services

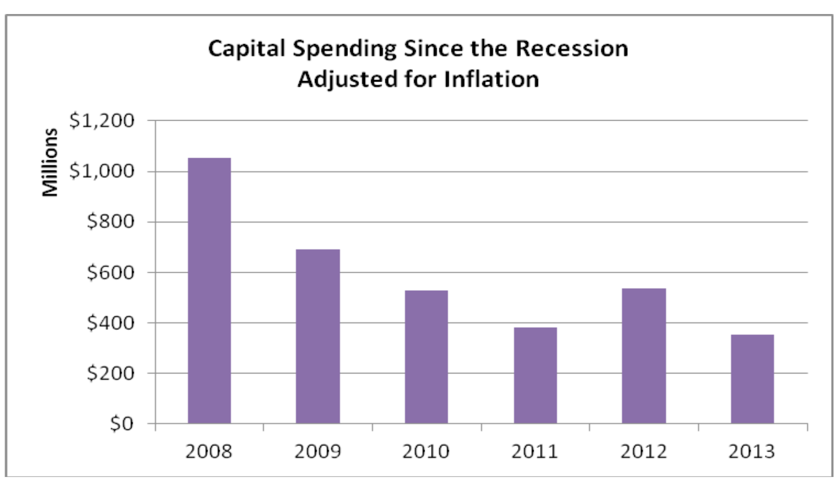
Angelenos paid a heavy price in the wake of the crash. The city decreased spending by 19% overall.[13] Spending has become increasingly concentrated on providing police and fire protection and paying debts.

The city cut its work force by 10%.[14] It also halted or severely cut back many basic services. It all but stopped repairing sidewalks, clearing alleys and installing speed bumps. It stopped inspecting sewers, resulting in twice the number of sewer overflows.

The city also decreased:[15]

- By 74% the amount of time it devotes to intersection traffic control—from 90,000 hours in 2008 to 24,000 hours last year,
- By 56% the number of abandoned vehicles it removes from city streets—from 139,000 in 2008 to 61,000 last year,
- By 61% the amount of debris it removes—from 201,000 cubic feet to 77,700,
- By 42% the catch basins it clears—a critical matter for flood control,
- By 55% the number of street signs it repaired or replaces—from 97,000 to 44,000 and
- By 46% the number of trees it trims—from 97,000 to 52,000.

The city stopped investing in itself. Overall infrastructure spending also fell dramatically.



Part III

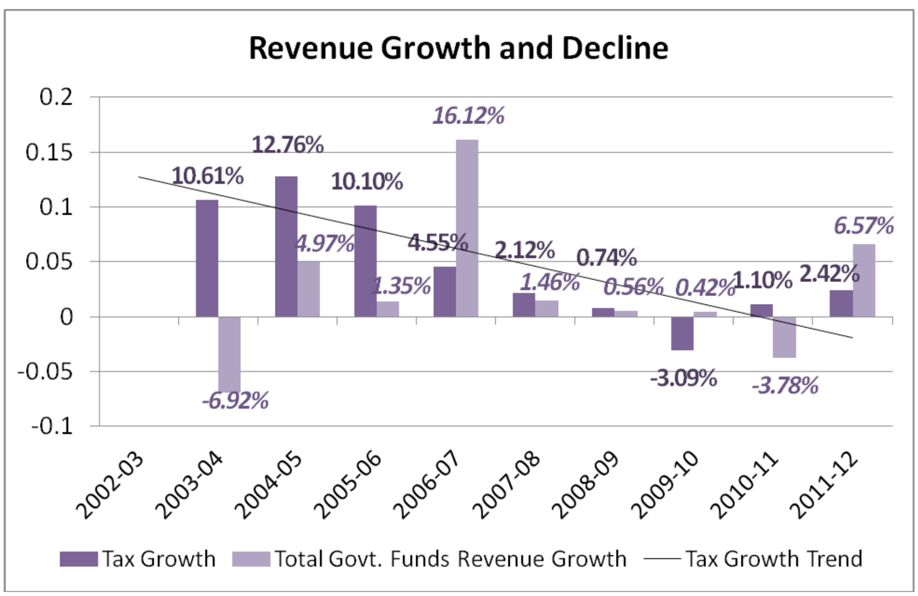
Addressing the Root Problems

Tax revenues have declined[16] as the wealthy and corporations have shifted more of the tax burdens onto people who can least afford to pay. This trend has played out at all levels of government.

Fifty years ago, the wealthiest Americans paid federal income taxes at a top marginal rate of 70%. Today, the top rate is half of that.[17] The highest corporate tax rates have also been slashed—from 52% to 35%.[18] **Just as families facing stagnated incomes have turned to multiple forms of debt to pay for basic necessities, cities have also been forced to take on increased debt.**

Debt service and finance costs together constitute one of the biggest drains on our public budgets. Over the past 30 years, the amount of municipal bond debt outstanding in the United States has increased 800% from $400 billion to $3.7 trillion.[19]

Since the 1990s city debt has shot up by 125%—half of that since the crash.[20] This growth in debt coincides with a drop in the share of income and property tax revenues paid by wealthy individuals and corporations. For local governments, the shift can be seen most clearly when it comes to property taxes.

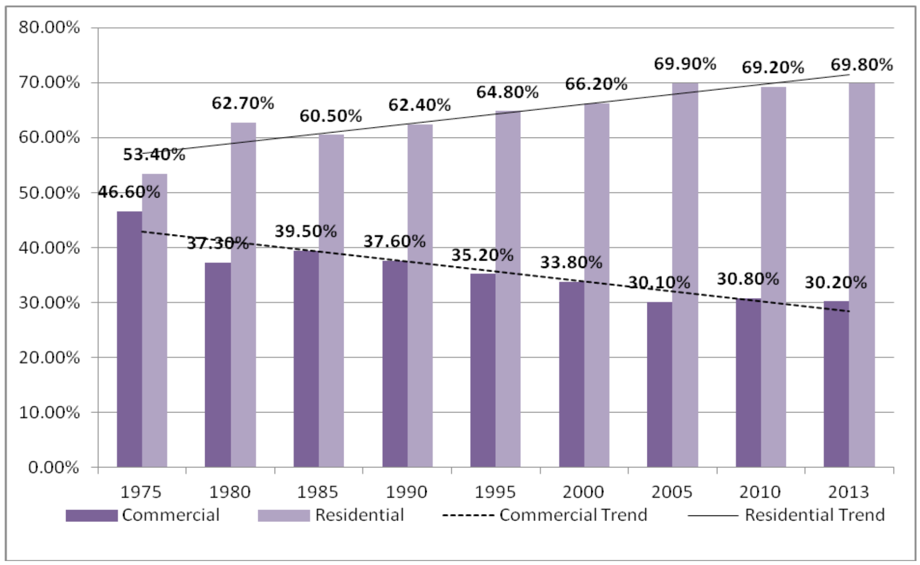


Corporations Shifting the Property Tax Burden

Property taxes are the largest source of LA city's revenue. Over the years, there has been a big shift in who pays them.

In 1975, before California voters passed Proposition 13, commercial property owners in Los Angeles County paid almost as large a share of property taxes as residential property owners. Now, commercial property owners pay only 30% of property taxes, according to the LA County Assessor's 2013 annual report. Residential property owners pay 70%.

Commercial Property Owners Are Paying Less Than Ever



California voters who approved Proposition 13 in 1978 had no reason to anticipate this shift. Proposition 13 called for reassessments to market value when commercial or residential properties were sold. In fact, Proposition 13's advocates promised in a ballot argument: "Proposition 13 will NOT give business a NEW WINDFALL."[21]

But that's exactly what it has done. **Proposition 13 had unintended consequences.** The most likely explanation for the shift is that many commercial property owners have taken advantage of loopholes in California law that allow them to avoid reassessment of many properties that are sold.

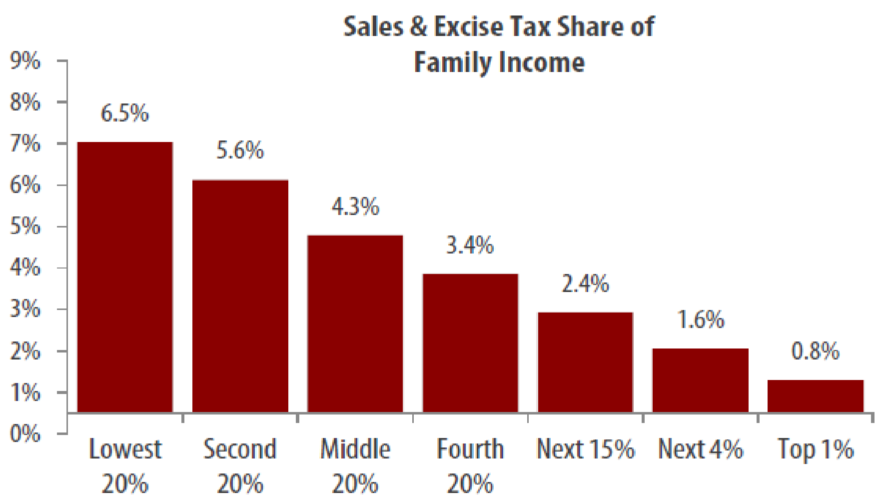
The loopholes have been well documented.[22] The most notorious allows commercial properties to escape reassessment, even if they are sold, if no one party ends up owning more than 50%.

If the loopholes were closed and commercial property was reassessed at market value, we calculate that would bring the City of Los Angeles approximately $200 million in additional property tax revenue each year.[23]

That would be enough to restore many of the services that have been cut.

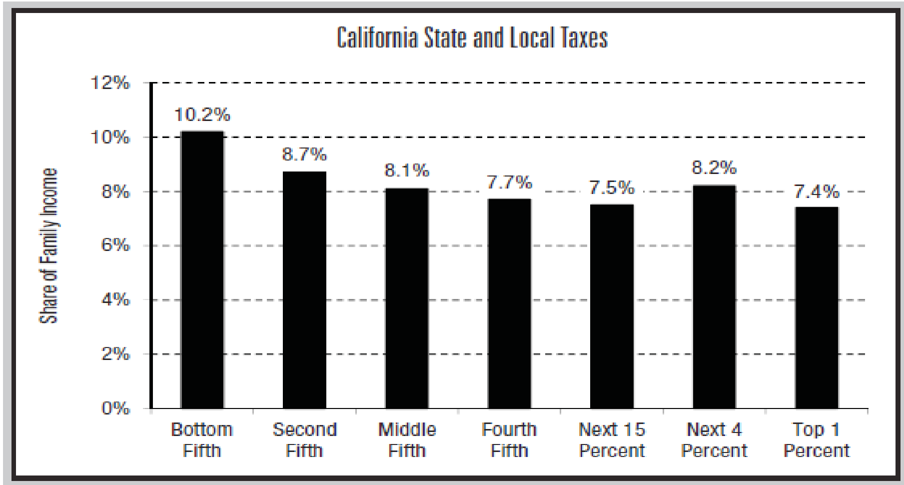
In the absence of sufficient revenue from property taxes, local governments have turned increasingly to other taxes that disproportionately impact working families, like sales taxes.

The sales tax may seem fair on its face. After all, everyone pays the same rate. But the sales tax is in fact an example of a deeply regressive tax. It takes a much larger proportion of a poor person's income than a rich person's. In other words, the less income you have, the greater percentage of that income you pay.[24]



Source: California Budget Project

When taxes like the sales tax are added to the overall mix of California taxes, the whole picture becomes regressive. The poor pay higher proportions of their income in taxes than the rich.[25]



Source: California Budget Project

One of our challenges is to figure out a way to make California's state and local tax system for individuals more progressive.[26]

Another is to rebalance the tax system so that corporations pay their fair share.

Where's the Money Now?

The Los Angeles metro area is the second largest economy in the United States.[27] It is also among the top 10 cities nationally in wealth inequality,[28] with the highest poverty rate of all major cities in the country.[29]

The Picture in LA:

- Los Angeles is among the top 10 cities in wealth inequality.[30]
- Most Angelenos are earning less than what they earned 30 years ago.[31]
- Sixty percent more Angelenos are unemployed than the national average.[32]
- Nearly 54,000 homes have been lost to foreclosure.[33]
- Working Angelenos' single most important asset, their homes, lost $35.7 billion in value due to foreclosures in the first five years after Wall Street tanked the economy.[34]
- The greater LA homeless population reached a record level of 58,000 last year.[35]
- A 2011 study found that 1.7 million Angelenos at the county level had insufficient incomes to meet the most minimal nutritional needs.[36]

In contrast, at the top of the wealth spectrum, as LA's richest corporations continue to accumulate more, while paying less and less of their fair share.

- The Los Angeles metro area has the second highest number of rich people in the country.[37]
- It is home to 126,200 millionaires and 950 multi-millionaires with assets over $30 million each.[38]
- LA's 40 billionaires have a net wealth of nearly $120 billion.[39]
- Nearly half of the 53 wealthiest Angelenos are in the finance field (investments, private equity, hedge funds and insurance).
- The metro area is also home to 14 Fortune 500 companies that together garnered $191 billion in revenues last year.[40]
- The CEOs of these 14 Fortune 500 companies earned $263 million in 2012.[41]

Endnotes

1 Los Angeles Department of Water & Power, Letter to City Council, p. 6 (Feb. 19, 2014) (online at http://clkrep.lacity.org/onlinedocs/2014/14-0237_rpt_bwp_02-19-14.pdf).
2 City of Los Angeles Comprehensive Annual Financial Statement, FY 2012-2013, p. 215.
3 "Lowering Borrowing Costs for States and Municipalities Through Common Muni," by Andrew Ang, professor of economics at Columbia University, and Richard C. Green, professor of economics at Carnegie-Mellon University, Page 6 of Full Report available online at http://www.brookings.edu/research/papers/2011/02/municipal-bond-ang-green
4 Ibid. Page 28
5 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2013, pp. 37, 38, 320 and 326; Los Angeles World Airports, Comprehensive Annual Financial Report for the year ending June 30, 2013, pp. 27 &29; The Port of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2013, pp. 34-37; Los Angeles Department of Water and Power Water System Comprehensive Annual Financial Report for the year ending June 30, 2013, pp. 13-15; Los Angeles Department of Water and Power Power System Comprehensive Annual Financial Report for the year ending June 30, 2013, pp.14-16.
6 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2013, p. 145
7 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2012, p. 139
8 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2012, p.138
9 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2012, p. 57
10 City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2012, p. 138; City of Los Angeles Comprehensive Annual Financial Report for the year ending June 30, 2011, p. 144; Historical LIBOR rates: http://www.fedprimerate.com/libor/libor_rates_history.htm.
11 City of Los Angeles Comprehensive Annual Financial Report for the years ending June 30, 2008, p. 132; June 30, 2009, p. 134; June 30, 2010, p. 138; and June 30, 2011, p. 144.
12 Long v. Nat'l R.R. Passenger Corp., case 11 civ 5440 filed in U.S. District Court Southern District of New York, August 4, 2011,; Los Angeles County Retirement Association vs. Bank of America et al, Case CV12-10903 filed in U.S. District Court for the Central District of California, December 21, 2012; http://www.utsandiego.com/news/2013/jan/09/Counties-sue-over-libor/..
13 Data source: Comprehensive Annual Financial Reports for the Fiscal Year Ended June 30, 2013. http://controller.lacity.org/Financial_Reports/index.htm. Section: Data from the statistical sections Statement: Change in Fund Balance - Governmental Funds. Modified Accrual Basis of Accounting Pgs. 338-339. Adjusted on a per capita basis with population data from the California department of finance.
Link: http://www.dof.ca.gov/research/demographic/reports/view.php
Inflation conversion using U.S. Department of Commerce Bureau of Economic Analysis. Implicit Price Deflators for Gross Domestic Product for State and Local governments. Table 1.1.9. http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=13
14 Comprehensive Annual Financial Reports for the Fiscal Year Ended June 30, 2013 pg. L-12 and 362-365
15 Comprehensive Annual Financial Reports for the Fiscal Year Ended June 30, 2013 pg. 366-377
16 Comprehensive Annual Financial Reports 2013 .Data from the statistical sections. Change in Fund Balance - Governmental Fund. Modified Accrual Basis of Accounting Pgs. 338-342
17 "How Progressive is the U.S. Federal Tax System: A Historical and International Perspective," by Saez and Picketty, available at http://www.nber.org/papers/w12404.pdf
18 "Corporation Income Tax Brackets and Rates, 1909-2002," available at http://www.irs.gov/pub/irs-soi/02corate.pdf
19 U.S. Bond Market Issuance and Outstanding (xls) - annual, quarterly, or monthly issuance to February 2014 (issuance) and from 1980 to Q4 2013 (outstanding) Updated 3/17/14

20 Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 1997 through 2013
21 California Voters Pamphlet, June 1978, page 59, available at http://librarysource.uchastings.edu/ballot_pdf/1978p.pdf
22 "System Failure: California's Loophole-Ridden Commercial Property Tax" available at http://www.caltaxreform.org/pdf_ppt/SystemFailureFinalReportMay2010.pdf
23 California Tax Reform Assn. estimates that localities statewide would generate $8 billion to $10 billion more if commercial properties were assessed at market rates. That would be a 17.4% increase over the amount actually collected. If $10 billion, that would be a 21.8% increase. Applied to LA City's $1.1 billion in property tax receipts, those percentage increases would produce additional revenues ranging from $191.5 million to $240 million per year.
24 Institute on Taxation and Economic Policy, "Who Pays?" available at http://www.itep.org/pdf/ca.pdf
25 California Budget Project, based on data from Institute on Taxation Economic Policy, 2012, available at http://www.cbp.org/pdfs/2012/120413_Who_Pays_Taxes.pdf
26 Proposition 30 was a half-step in this direction, temporarily increasing income taxes for the highest earners while also increasing the sale tax for all California.
27 http://www.city-data.com/forum/city-vs-city/1997435-2013-gdp-metropolitan-area.html; http://www.skyscrapercity.com/showthread.php?t=1489306.
28 http://www.brookings.edu/research/papers/2014/02/cities-unequal-berube.
29 http://www.la2020reports.org/reports/A-Time-For-Truth.pdf, p. 1.
30 http://www.brookings.edu/research/papers/2014/02/cities-unequal-berube.
31 http://www.economicrt.org/summaries/Effects_15Dollar_MinWage_LA_City.html, pp.6 & 10.
32 Bureau of Labor Labor Statistics Local Area Seasonally Adjusted Unemployment Statistics for Los Angeles-Long Beach Glendale Metropolitan Division for January 2014; Bureau of Labor Statistics, National Seasonally Adjusted Unemployment rate for January 2014
33 Los Angeles Housing Element: http://planning.lacity.org/HousingInitiatives/HousingElement/Text/0ES.pdf
34 Data from RealtyTrac. Exact data for 2011 was not available, and was calculated at 67% of 2010 based on trends from other locations.
35 http://articles.latimes.com/2013/nov/21/local/la-me-ln-hud-homeless-20131121
36 http://feedingamerica.org/hunger-in-america/hunger-studies/map-the-meal-gap.aspx
37 http://www.census.gov/prod/2013pubs/acsbr11-23.pdf
38 http://www.economist.com/blogs/graphicdetail/2013/05/daily-chart-7
39 http://www.cbjonline.com/a2labj/lists/2013-Wealthiest-Angelenos-1-25.pdf
40 Financial Data from CapitalIQ.
41 Data from CapitalIQ

Appendix

The following three documents support the facts and assertions laid out in the "No Small Fees" report.

I. **Methodology Used to Document Fees**

II. **Detailed Fees Citations with Amounts**

III. **Guide to Terms and Fee Calculations**

Methodology Used to Document Fees

In the interest of improving transparency and identifying avenues for cost savings for the City, SEIU Local 721 set out to document, for one year, all of the fees paid by the City to Wall Street firms for financial management services. Because there is no central depository of information accounting for the City's payments for financial services, our research involved hundreds of hours combing through the City's online Council file management system, its contract database, annual and quarterly budget and financial reports, the Electronic Municipal Market Access database, and any publicly available reports published online by financial institutions contracted with the City. What emerged from our research is likely to represent only a small portion of what the City spends per year on financial services.

In fiscal year 2012-13, we estimate that the City paid Wall Street firms $204.4 million in fees (excluding debt service payments such as principal and interest) from the following funds:

1. Municipal Improvement Corporation of Los Angeles (MICLA);
2. Los Angeles World Airports;
3. Regional Airports Improvement Corporation;
4. Harbor;
5. Power System;
6. Water System;
7. Tax and Revenue Anticipation Notes (General Fund);
8. Wastewater System Revenue Bonds and Commercial Paper Notes;
9. Solid Waste Resources; and
10. Three Pension funds (Los Angeles City Employees' Retirement System (LACERS), Los Angeles Fire and Police Pensions (LAFPP), and Department of Water and Power Employees' Retirement Plan (WPERP)).

Perhaps more significant than the fees we were able to find, are the fees that we could not account for—fees that are often "hidden" in private equity and hedge funds. In an alternative investment structure such as hedge funds, General Partners (GP) assume responsibility for fund operations while limited partners commit capital into the partnership and are only liable for the original paid-in amount.[1] General partners do have "skin in the game;" however the GP's contribution is usually quite small at about 1 percent of the assets of the partnership.[2]

Both private equity and hedge funds reward managers with performance fees. In private equity funds, the GP receives anywhere from 10 to 40 percent—usually 20 percent—of the fund's distribution (profit) after all investment and management expenses have been paid and after limited partners have received invested capital and accrued preferred returns.[3]

In hedge funds, performance fees (called "incentive fees") are generally 20 percent of fund returns, but may range as high as 50 percent.[4] Incentive fees are paid to fund managers "when the net asset value of the fund is above the level at which the performance fee was last paid. This level is commonly referred to as the high-water mark."[5]

We base our conclusion that these performance and incentive fees may amount to a lot of money, in part, on disclosures by publicly traded dealers in private equities. According to the Blackstone Group, one such leading publicly traded firm, performance-based fees such as carried interest have "historically accounted for a very significant portion of our income."[6] For example, according to the most recent form 10-K Annual Report filed by The Blackstone Group L.P., performance fees comprised 62, 44, and 39 percent of total fee revenue in 2013, 2012, and 2011, respectively.[7]

Given the potential for performance-based fees to comprise a significant portion of payments to Wall Street firms, it is important to emphasize that our annual fee estimate of $204.4 million does NOT include any performance fees (carried interest, incentive fees, participation fees), or any of the following:

1. Investment management expenses for transactions outside of the City's General and Special Investment Pool Programs such as investments by DWP totaling $667,062,000 and by other agencies totaling $838,186,000;[8]

2. So-called "soft dollar" payments by mutual funds and other money managers to their service providers (i.e., fees hidden in the trading costs which are passed onto investors but not reflected in disclosed annual fees);[9] and

3. Recordkeeping costs associated with the management of investment funds.

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[1] Investopedia, *Hedge Funds: Structures* (accessed Mar. 17, 2014) (online at www.investopedia.com/university/hedge-fund/structures.asp).
[2] Seth H. Poloner, *Structuring Hedge Fund Manager Compensation: Tax and Economic Considerations*, (May 2010) (online at http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCoQFjAA&url=http%3A%2F%2Fwww.davispolk.com%2Fsites%2Fdefault%2Ffiles%2Ffiles%2FPublication%2F9eb5bf86-da00-4adb-bab8-e6116ca12b1a%2FPreview%2FPublicationAttachment%2F7cf48df1-c313-4984-a141-e8b33fd20ea8%2Fspoloner.journal.of.taxation.article.jun10.pdf&ei=vRIqU7ufAcm-0gHI5IHgCw&usg=AFQjCNH-SPGRrDCFzRM8G--wsWxqfQa96w&sig2=28awWbTIfHWwCqpORzQpCg&bvm=bv.62922401,d.dmQ).
[3] Blackstone Group L.P., *Form 10-K (Annual Report)*, p. 13 (Filed Feb. 28, 2014 for the Period Ending 12/31/13) (online at http://files.shareholder.com/downloads/BX/3014108467x0xS1193125-14-77145/1393818/filing.pdf).
[4] Stout/Risius/Ross (SRR), *Carried Interest and Performance Fee Incentives*, p. 2 (Fall 2011) (online at www.srr.com/article/carried-interest-and-performance-fee-incentives).
[5] *Id.*
[6] Blackstone Group L.P., *supra* note 3, at 14.
[7] See *id.* at 85.
[8] City of Los Angeles, *Comprehensive Annual Financial Report* (For the Fiscal Year Ended June 30, 2012), p. 94 (online at http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_024494.pdf.
[9] Proskauer, *Client Commission (Soft Dollar) Arrangements: The Section 28(e) Safe Harbor* (Oct. 2011) (online at www.proskauer.com/files/uploads/broker-dealer/Client-Commission-Soft-Dollar-Arrangements.pdf).

Detailed Fees Citations with Amounts

Service	Amount	Reference
Bank Service Fees	$7,940,545	Filter by Account Name "bank service fees," then sort by transaction dates from July 1, 2012 through June 31, 2013; export to Excel to calculate total https://controllerdata.lacity.org/E-Checkbook/eCheckbook-Data/pggv-e4fn

Tax and Revenue Anticipation Notes

Legal Counsel	$174,500	http://clkrep.lacity.org/onlinecontracts/2013/c-122593_c_07-18-13.pdf http://clkrep.lacity.org/onlinecontracts/2012/C-120671_C_07-06-12.pdf

Enterprise Funds

Sewer Fund (Wastewater)

Cost of Issuance (one-time)	$1,085,262	Series 2013-A Bonds (Subordinate Refunding)	http://emma.msrb.org/ER666371-ER517470-ER920082.pdf
	$564,872	Series 2013-A Bonds (Refunding)	http://emma.msrb.org/ER681707-ER528427-ER931034.pdf
	424,269	Series 2013-B Bonds (Refunding)	http://emma.msrb.org/ER681707-ER528427-ER931034.pdf
	$805,239*	Series 2012-D Bonds (Subordinate Refunding) (Variable Rate)	City of Los Angeles, Comprehensive Annual Financial Report (CAFR) Fiscal Year Ending June 30, 2013, p. 140 *Note: Issuance cost estimated using average issuance cost as a percentage of total bond issued for Series 2013 Wastewater Bonds http://controller.lacity.org/Financial_Reports/index.htm
Letter of Credit (LOC) Fee	$1,544,730	Interest Rate Swaps, Series 2012-A	City of Los Angeles CAFR 2012, p.138-139 http://controller.lacity.org/Financial_Reports/index.htm Bank of America Agreement, Bond Series 2008-F, p. 46 Bank of America, North America LOC, p. 3 http://clkrep.lacity.org/onlinedocs/2008/08-0951_rpt_cao_4-18-08.pdf
Counterparty Payments	$4,808,267		
Dealer Fee	$40,000	Commercial Paper**	Barclays Capital Inc., p. 55 http://clkrep.lacity.org/onlinedocs/2008/08-0951_rpt_cao_6-9-10.pdf
LOC Fee	$1,068,200		Bank of New York Mellon, Sumitomo Mitsui Banking Corporation, p. 2 http://clkrep.lacity.org/onlinedocs/2012/12-1861_RPT_CAO_11-29-12.pdf http://emma.msrb.org/ER690666-ER535423-ER937416.pdf
Commitment Fee	$1,104,000		http://clkrep.lacity.org/onlinedocs/2008/08-0951_rpt_cao_6-9-10.pdf, p. 84

**$80 million outstanding from December 2012, See http://clkrep.lacity.org/onlinedocs/2012/12-1861_RPT_CAO_11-29-12.pdf; www.dacbond.com/dacContent/doc.jsp?id=0900bbc7801177d6; City of Los Angeles CAFR 2012, p. 215

Municipal Improvement Corporation of Los Angeles Commercial paper

Cost of Issuance	$85,000	p. 84, CAFR Fiscal Year Ending June 30, 2013 http://controller.lacity.org/Financial_Reports/index.htm
Dealer Fee	$128,940	Wells Fargo, Commercial paper dealer agreement, p. 962, Fee rate multiplied by remaining debt http://clkrep.lacity.org/onlinedocs/2013/13-0637_rpt_cao_5-23-13.pdf
Utilized and Unutilized LOCs	$202,800	Bank of the West, p. 2 http://clkrep.lacity.org/onlinedocs/2009/09-2864-S1_RPT_CAO_12-28-10.pdf
	$1,484,293	p. 1, 96-97 J.P. Morgan, Exhibit C Fee Letter http://clkrep.lacity.org/onlinedocs/2012/12-1196_RPT_CAO_08-03-12.pdf
	$1,300,000	Wells Fargo, p. 2 http://clkrep.lacity.org/onlinedocs/2009/09-2864-S1_RPT_CAO_12-28-10.pdf

Sanitation Equipment Charge Revenue Bonds (Solid Waste Resources Revenue Bonds)

Cost of Issuance	$189,714	Series 2013-A Bonds	p. 6 http://emma.msrb.org/EP737830-EP572620-EP974014.pdf
	$202,997	Series 2013-B Bonds	

<u>Proprietary Departments</u>

Los Angeles World Airports

Cost of Issuance	$742,876	Series 2012 A Bonds	http://emma.msrb.org/EP724136-EP561794-EP963012.pdf
	$1,091,992	Series 2012 B Bonds	
	$178,692	Series 2012 C Bonds	
LOC Fees	$340,000 Bank of America	Commercial Paper	Los Angeles World Airports (LAWA), CAFR 2013, p. 47 www.lawa.org/uploadedFiles/LAWA/pdf/LAWA_CAFR_FY_2013.pdf www.lawa.org/uploadedFiles/board_agenda/Reports/boac120213x1330_specialmeetingreports.pdf www.lawa.aero/uploadedFiles/board_agenda/Attachment/2012%20loc%20docs.pdf
	$244,800 Barclays		
	$490,050 Citibank		
	$783,840 Wells Fargo		
General Financial Services	$110,000	Ontario Airport	http://clkrep.lacity.org/onlinecontracts/2012/C-120971_C_09-06-12.pdf

Regional Airports Improvement Corporation

Cost of Issuance	$1,139,050	Facilities Lease Refunding Revenue Bonds, Issue of 2012	p. 12 http://emma.msrb.org/EP698515-EP542822-EP943949.pdf
Termination Fee	$694,956		

Los Angeles Department of Water and Power

Cost of Issuance	$1,428,314	Water System Revenue Bonds, 2012 Series B, C	http://emma.msrb.org/ER617228-ER478893-ER881830.pdf
	$282,417	Water System Revenue Bonds, 2013 Series A	http://emma.msrb.org/EA519683-EA405391-EA802358.pdf
	$2,369,829	Power System Revenue Bonds, 2012 Series A, B, C	http://emma.msrb.org/EA483335-EA374778-EA771567.pdf
	$1,068,962	Power System Revenue Bonds, 2013 Series A	http://emma.msrb.org/ER646947-ER502042-ER904763.pdf
	$1,289,230	Power System Revenue Bonds, 2013 Series B, C	http://emma.msrb.org/EA531719-EA414230-EA811102.pdf
LOC Fee	$652,500	Water System Variable Rate Demand Revenue Bonds, 2001 B1-B3	*See May 2013 Financial Services Organization Monthly Activity Report
Remarketing Fee	$168,750		
LOC Fee	$550,000	Water System Variable Rate Demand Revenue Bonds, 2001 B4	
Remarketing Fee	$75,000		
LOC Fee	$2,613,600	Power System Variable Rate Demand Revenue Bonds, 2001 B	
Remarketing Fee	$435,600		
LOC Fee	$2,641,800	Power System Variable Rate Demand Revenue Bonds, 2002 A	
Remarketing Fee	$271,950		
LOC Fee	$1,400,000	Power System Commercial Paper 2004	*See May 2013 Financial Services Organization Monthly Activity Report
Remarketing Fee	$80,000		
Counterparty Payments	$23,064,535	Natural Gas Forward Contracts 2013	*Financial Services Organization Monthly Activity Reports
*See https://ladwp.com/ladwp/faces/ladwp/aboutus/a-financesandreports/a-fr-reports?_adf.ctrl-state=wj339rtv_4&_&_afrLoop=333539809130073&_afrWindowMode=0&_afrWindowId=55ug4pifk_14#%40%3F_afrWindowId%3D55ug4pifk_14%26_afrLoop%3D333539809130073%26_%3D%26_afrWindowMode%3D0%26_adf.ctrl-state%3D55ug4pifk_30			

Port of Los Angeles Commercial Paper

LOC Fee	$1,000,000	p. 180, Mizuho Bank Fee Letter Dated July 19, 2012, p. 186, Wells Fargo Fee Letter Dated July 19, 2012 http://clkrep.lacity.org/onlinedocs/2012/12-0903_RPT_BHC_06-14-12.pdf
Commitment Fee	$637,500	p. 134, City of Los Angeles, CAFR 2013 (outstanding balance) http://controller.lacity.org/Financial_Reports/index.htm

Fiduciary Funds: Defined Benefit Pension Plans

Los Angeles City Employees' Retirement System (LACERS)

Investment Mgmt Fees	$1,021,000	SLP	p. 42, 53 www.lacers.org/aboutlacers/reports/CAFRs/CAFR2012-13.pdf
	18,050,000	Private Equity	
	$9,090,000	Real Estate	
	$21,036,000	Other	
SLP Income Split Fee	$1,022,400*	www.lacers.org/aboutlacers/board/BoardDocs/2013/Board/20131126/ITEM%20IV-C%20%20INVESTMENTS%20-%20CONTRACT%20EXTENSIONS%20WITH%20THE%20NORTHERN%20TRUST%20COMPANY.pdf	

*Assumes 15% of securities lending income (split fee) is not included in total SLP management expenses.

Los Angeles Fire and Police Pensions (LAFPP)

Investment Mgmt Fees	$901,907	SLP	p. 324-325, City of Los Angeles CAFR 2013 http://controller.lacity.org/Financial_Reports/index.htm
	$55,588,305	Other	p.11 www.lafpp.com/LAFPP/documents/financial_reports/2013_financial_statement.pdf
SLP Income Split Fee	$902,977*	p. 53, Northern Trust Company (Custodian) http://controller.lacity.org/stellent/groups/electedofficials/@ctr_contributor/documents/contributor_web_content/lacityp_026043.pdf	

*Assumes 10% of securities lending income (split fee) is not included in total SLP management expenses.

Los Angeles Department of Water and Power Employees' Retirement Plan (WPERP)

Investment Mgmt Fees	$321,204	SLP	p. 20-26 http://retirement.ladwp.com/image/FY13%20DPW%20Retirement%20Audit%20ReportFINAL.pdf
	$27,103,856	Other	p. 323-324, City of Los Angeles CAFR 2013 http://controller.lacity.org/Financial_Reports/index.htm
SLP Income Split Fee	$272,168*	p. 4.15 http://retirement.ladwp.com/AgendaItems/AGENDA%20-%2020120808%20item%204.pdf	
Legal Counsel	$66,000	http://clkrep.lacity.org/onlinecontracts/2014/c-123586_c_1-23-14.pdf	

*Assumes 15% of securities lending income (split fee) is not included in total SLP management expenses.

Guide to Terms and Fee Calculations

<u>Bond/Bond Principal:</u>

"A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate."[1]

<u>Bond Premium:</u>

"The difference between the market price of a bond and its face value (when the market price is higher). A premium will occur when the bond's stated interest rate is set higher than the true interest cost (the market rate)."[2]

<u>Cost of Issuance:</u>

One-time charge including "underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees."[3]

<u>Debt Remaining/Outstanding:</u>

Total principal and interest amount of debt that is unpaid.

<u>Commitment Fee:</u>

Definition: "A fee charged by a lender to a borrower for an unused credit line or undisbursed loan."[4]

Calculation: Fee rate charged per annum multiplied by undisbursed debt amount. If multiple lines of credit, unused percentage of total debt multiplied by individual lender amounts before multiplying by annual fee rate.

<u>Commercial Paper Dealer Fee:</u>

Definition: Fee associated with the services of a commercial paper dealer who "is typically a large financial firm that has the capital and sophistication to distribute commercial paper to investors on behalf of borrowing corporations and to make a market in commercial paper, setting prices at which it is willing to buy and sell."[5]

Calculation: Fee rate charged per annum multiplied by outstanding debt (i.e., unpaid portion of a debt including interest accrued on the balance).

<u>Variable Rate Demand Note (VRDN):</u>

"A debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the primate rate…Because money market interest rates, such as the bank prime rate, are variable over time, the interest rate applicable to this type of demand note is variable as well…these debt instruments are payable on demand."[6]

VRDNs involve third-party letters of credit that "obligate the credit provider to pay principal and interest to bondholders within a certain time frame if the underlying issuer is unable to fulfill its obligation."[7]

<u>Basis Points/Letters of Credit:</u>

Definition: "A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase."[8]

Calculation: Fee rate charged per annum multiplied by utilized or unutilized letter of credit amount.

<u>Remarketing Fee:</u>

Definition: Fee charged by remarketing agent who sells tendered debt to new debt holder.[9]

Calculation: Fee charged per annum multiplied by amount of debt remaining.

<u>Interest Rate Swaps/Counterparty payments:</u>

Definition: "An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR)" and are used to "limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap."[10]

LIBOR (London Interbank Offered Rate) is a benchmark interest rate index.[11]

Notional Value is the principal amount over which interest is calculated.[12]

The City of Los Angeles is required to make payments to its counterparties on two swap agreements because the fixed rate the City pays is higher than the variable rate paid by its counterparties. The City paid 3.18 percent (3.34-.15753)[13] on the notional value of the swaps while the banks or counterparties paid a variable interest rate that is currently at .1 percent (64.1 percent of 1-month LIBOR Rate).[14]

Commodity (e.g., natural gas) Futures Contracts:

Department of Water and Power "enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers." Hedging contracts are designed to "cap prices over a portion of the forecasted gas requirements."[15]

Termination Fees:

For Regional Airports Improvement Corporation—fee is paid to Trustee for termination of the Reserve Account Investment Agreement.[16]

In FY 2011-12, Sewer refunded the Series 2008 A-F1 Wastewater System Subordinate Variable Rate Revenue Refunding Bonds and partially terminated the swap agreements by issuing the Series 2012-A Subordinate Bonds.[17]

Tax and Revenue Anticipation Notes (TRANs):

A short-term loan issued to be paid off by [future] revenues, such as tax collections and state aid.[18]

Securities Lending:

"The act of loaning a stock, derivative, [or] other security to an investor or firm. Securities lending requires the borrower to put up collateral, whether cash, security or a letter of credit."[19]

The income split fee is the portion of revenue generated in the Securities Lending Program (SLP) that is paid to the SLP financial manager. SLP investment companies usually earn 10 to 15 percent of the income generated.

Investment Management Fees:

Fees paid to fund managers based on a percentage of assets managed. Investment management fees reported in the spreadsheet DO NOT include any performance- or incentive-based fees.

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[1] Massachusetts Department of Revenue, *Municipal Finance Glossary* (May 2008) (online at www.mass.gov/dor/docs/dls/publ/misc/dlsmfgl.pdf).

[2] *Id*.

[3] Los Angeles Department of Water & Power, Letter to City Council, p. 6 (Feb. 19, 2014) (online at http://clkrep.lacity.org/onlinedocs/2014/14-0237_rpt_bwp_02-19-14.pdf).

[4] Investopedia, *Commitment Fee* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/c/commitmentfee.asp).

[5] Investopedia, *Paper Dealer* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/p/paperdealer.asp).

[6] Investopedia, *Variable Rate Demand Note – VRDN* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/v/variable_rate_demand_note.asp).

[7] WellsFargoAdvantageFunds.com, *A Primer on Variable-Rate Demand Notes* (accessed Mar. 11, 2014) (online at www.wellsfargoadvantagefunds.com/pdf/cash/primer_vrdns.pdf).

[8] Investopedia, *Letter of Credit* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/l/letterofcredit.asp).

[9] FreddieMac.com, *Bond Basics* (July 2009) (online at www.freddiemac.com/multifamily/resources/module_1_bond_basics_tutorial.pdf).

[10] Investopedia, *Interest Rate Swap* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/i/interestrateswap.asp).

[11] Bankrate.com, *LIBOR, Other Interest Rate Indexes* (accessed Mar. 11, 2014) (online at www.bankrate.com/rates/interest-rates/libor.aspx);

[12] Investopedia, *Notional Principal Amount* (accessed Mar. 11, 2014) (online at www.investopedia.com/terms/n/notionalprincipalamount.asp).

[13] City of Los Angeles, *Comprehensive Annual Financial Report* (For the Fiscal Year Ended June 30, 2012), p. 139 (online at http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_024494.pdf).

[14] City of Los Angeles, *Comprehensive Annual Financial Report* (For the Fiscal Year Ended June 30, 2012), p. 138-139 (online at http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_024494.pdf); see Bankrate.com, *LIBOR, Other Interest Rate Indexes* (accessed Mar. 11, 2014) (online at www.bankrate.com/rates/interest-rates/libor.aspx).

[15] City of Los Angeles, *Comprehensive Annual Financial Report* (For the Fiscal Year Ended June 30, 2012), p. 92 (online at http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_024494.pdf

[16] EMMA.MSRB.org, *Regional Airports Improvement Corporation, Facilities Lease Refunding Revenue Bonds, Issue of 2012, LAXFUEL CORPORATION* (accessed Mar. 11, 2014) (online at http://emma.msrb.org/EP698515-EP542822-EP3949.pdf).

[17] City of Los Angeles, *Comprehensive Annual Financial Report* (For the Fiscal Year Ended June 30, 2012), p. 138 (online at http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_024494.pdf

[18] Massachusetts Department of Revenue, *Municipal Finance Glossary* (May 2008) (online at www.mass.gov/dor/docs/dls/publ/misc/dlsmfgl.pdf).

[19] Investopedia, *Securities Lending* (accessed Mar. 11, 2013) (online at www.investopedia.com/terms/s/securitieslending.asp).