

BASIC QUESTIONS

Prepared for the Los Angeles City Council
in coordination with the presentation of the
Neighborhood Council Budget Advocates
to
The City Council Budget & Finance Committee

May 5, 2014

SOME PEOPLE LOOK AT THE WORLD AND ASK “WHY?” HERE, WE LOOK AT THE CITY AND ASK “WHEN?”

I don't ever want to do this ...again... but someone will have to.

Eric Garcetti, our “new” Mayor has spoken of “going back to basics” but his actions, so far, and the actions of the City Council show that it is very hard to change the way the City of Los Angeles conducts its financial affairs.

Today, we are engaged in the annual review and refinement of Mayor Garcetti's “first” Budget. Every Budget is a statement of policy. This Budget seems to be following the patterns set by recent, past Budgets. The City Council has the opportunity to change that. **Will the City of Los Angeles show real effort to update its policies, upgrade its activities and create a sustainable City?**

Those question and the questions that follow are ...admittedly... molded by the conclusions of this author but they come from my 10 year experience (as long as is possible) as an active Neighborhood Council Stakeholder and the influences of my NC Stakeholder colleagues.

Isn't Public Participation in City Governance what the Charter Reform sought?

Why have the participation of NC Stakeholders and ...specifically... the financial recommendations of the Neighborhood Council Budget Advocates (NCBAs) been received with so little recognition?

...been given so little respect? and

...had so little impact?

These questions are grouped into four categories:

1. Basic Fiscal Policy
2. Defining and eliminating the City's Structural Budget Deficit
3. Transparency
4. Basic Operational Policy

BASIC FISCAL POLICY

This Budget, like past Budgets, has been divided into its three funding sources:

1. The **General Fund** (\$ 5.1 billion) which comes from local Taxes, Licenses, Permits, Fees, Fines and Interest Income.
2. The **Special Funds** (\$ 3.0 billion) which come from private grants, State and Federal programs, a number of specific funds created by the City with funds that are originate in the General Fund and, lastly, the (retained) ongoing Special Fund Balances ("Available Balances")
3. The **Tax and Revenue Anticipatory Notes** (TRAN) which is a \$1.3 billion, "short-term," General Obligation Debt with a Public Offering in July, each year. This loan is repaid with interest before the end of the fiscal year, June 30th. Two-thirds of this money is used to arbitrage (benefit from) a fixed discount from the City's two Pension Plans. The remainder (often over \$ 400 million) is used as a "line-of-credit" to maintain the City's Cash Balance from July 1st to December 31st because the City does not have enough income to pay its debts until the first payments of the Property Taxes begin to arrive.

The Controller's and Mayor's estimates of Revenue for the year have proven to be remarkably accurate. The \$ 5.1 billion General Fund is the money the Mayor and City Council manipulate and manage throughout the year; its "discretionary" funds.

Why are the lines between General Fund, Special Fund and TRAN fund transactions blurred so often? lack of transparency? lack of regulation?

Why is there no distinction between Special Funds whose origins are based in the General Fund vs. Special Funds which come from "outside" sources?

Why has there been no effort to readjust the City's Income Time-Table to eliminate those annual "deficit months" and to decrease the dependence on the TRAN?

What guarantee do our City Employees (active and retired) have that the money arbitrated through their Pension Plans will not decrease their Pension Plan Assets?

The City's STRUCTURAL BUDGET DEFICIT

Each year, we hear that the City has another Structural Budget Deficit, this year, about \$ 242 million, and that the recent Great Recession caused all the problems. But there has been minimal if any decrease in General Fund Income.

Doesn't this mean that past-Mayors proposed and Mr. Garcetti is again proposing a Budget that exceeds the Controller's and his estimations for next year's Income?

Doesn't that mean that the Mayor is the creator of the City's Budget Deficits ... not "the economy?" Doesn't that mean that the City needs a new definition of "living within its means?"

City law requires that the City not overspend its available Revenues. In recent years, Mayors have come to depend on an ever-increasing General Fund income to balance the budget by the end of the year. Last year's increase in the General Fund was poured into the Reserve Funds. This year, no increase is expected and Mayor Garcetti proposes to close about half of the Structural Budget Deficit by withdrawing over \$ 100 million of Reserve Fund money.

Can the City Council recommend ways to create a Zero-Sum Budget and preserve our Reserve Funds all at the same time? (If the answer is, "NO," let the Public hear WHY? ...and... If "NOT NOW" ... WHEN?)

This Budget, like all recent Budgets, has been "Item-Based." This is understandable because over 90% of the City's Cash Flow goes to pay the cost of its Employees. The NCBA's have proposed that the City Employees get no further Basic Salaries increases until Economic Recovery restores the funds that will restore recently lost City Services.

Can the City Council assure that City Employee costs will be based on distinct Job Descriptions, ongoing training & education, justifiable incentives for advancement and documented Employee productivity within the limits of predicted City Revenues?

We have been hearing about moving to Performance-based Budgeting for last four years. Lately, the phrase has been Performance-informed Budgeting.

When will the City have enough information to be adequately “informed?”

How do we gather Workload statistics and define Cost-Benefit Analysis?

What are the limits of Performance-based Budgeting?

How much improvement in our Information Technology will be required and how much will it cost to implement the necessary technology?

What changes in the attitudes and activities of the Departments will it take?

TRANSPARENCY

We welcome and applaud the Controller’s efforts to present more financial data to the Public. We watch the Mayor’s efforts to open his office to the Public. We wait for the City Council to follow suit. The NCBA’s have much experience in digging more information out of the Budget Proposal Books, out of the Cash Flow Data reports, out of Departmental sources, by interviewing Labor Representatives and others sources. We have heard from qualified people that they believe that some of the data bases and information available to the City Decision Makers are not available to the Public.

Where is all this “hidden” information? Does the Controller and/or the CAO know?

How can all of the pertinent data and information be presented to the Public in the most understandable way?

The chronology of the City’s expenses is best displayed in the Controller’s Cash Flow Reports. The need to modify the TRAN, mentioned above, is most easily understood by reviewing the City’s Cash Flow pattern. All of the Employee Compensation paid with both General Fund money and Special Fund money is displayed there. Unchanging Revenues coupled with increasing Employee Costs have been “squeezing out” Employee numbers, Operating Costs and Services.

Why is more attention not paid to the City’s Cash Flow data patterns?

Why have measures not been taken to provide enough income every month during the year?

To many, it seems that the power to influence the decisions of the Mayor and City Council is found in

1. **MONEY** ... specifically ... the campaign contributions of constituents,
2. **PEOPLE** ... specifically ... the numbers of people calling, writing to and appearing before the Mayor and the City Council,
3. **VOTERS** ... specifically ... the people who have voted for or will vote for the Mayor and City Council Members and
... more than ...
4. **THE FACTS** ... specifically ... the definitions, expected consequences, documented effects of policies, practices and proposals.

The appointment of a “new” Chief Legislative Analyst (CLA) gives the City the opportunity to address these issues differently. We need to recognize that the interests of the Public and the interests of “Special Interest” groups need constant scrutiny and consideration.

Would the City Council require that the CLA not just define proposed actions but also designate both the beneficiaries of the action and the ways in which other constituent groups may be actively limited, impaired or otherwise impacted by that action?

Could the City Council request that the CLA define the metrics of the actions and the City Administrative Officer (CAO) collect the data necessary to review the Performance-based Budgeting practices of the actions?

Could schedules for review be established to verify and, when necessary, modify the outcomes of the approved and implemented actions?

BASIC OPERATIONAL POLICY

All four of these areas of concern are interrelated. Here, we consider some more specific policies and practices that are not working well for the City’s financial health and sustainability.

The biggest threat to the City's solvency was, is and continues to be its Pension obligations. The City's Pension Plan Contributions now exceed one billion dollars a year. Its long-term obligations (Unpaid Actuarially Accrued Liabilities, UAAL) are approaching \$ 100 billion. Pension Plan contracts are created between the City and one person at a time, at the time he/she is hired. Pension Plan contracts are carefully protected by laws. Pension Plan contracts can not be changed without that employee's approval during that employee's employment-life. Any decrease in benefits must be associated with a balancing increase in benefits. The total Pension Costs of the City for all of its Employees take decades to change. The City needs to gather and use estimates of the total costs of its employees (Direct Salaries, Health & Dental Benefits, Retirement Benefits, etc.) for each employee's lifetime in its estimates and payments of its Pension Plan "Fixed Liability" (UAAL).

Certain changes and reforms are under consideration; some are in process:

1. **Can the City achieve greater efficiency and consistency by combining the administration of its three Pension Plans (the L.A. City Employee Retirement System or LACERS, the Fire & Police Pension System and the D.W.P. Employees Retirement Plan) into a single administration?**
2. **What adjustments in the essential Pension Plan Contracts (i.e. "new Tiers") are fair to the employees and to the City?**
3. **How much (what percentage) of the Employee Health Care and Pension Plan costs will the Employees be willing to pay?**
4. **Can the City unify its Pension Plan policies to increase the retirement age to age 65 or even 67?**
5. **Can the City change its policy of basing Retirement Benefits on the last three years of employment (rather than on only the last year) to avoid the costly practice of "spiking?"**
6. **Considering the legal protections of Pension Plans, can the City establish a policy to decrease or even deny Retirement Benefits of employees convicted of corruption, fraud and/or criminal activities in the course of their employment?**
7. **Will the Mayor and/or City Council convene a Commission composed of City, Employee, legal and Public representatives to supervise, consider and recommend changes to the City Pensions and Benefits Systems?**

The City's Health & Dental Plans for both active and retired employees are more generous than those of many other cities and even those of the private sector.

What are the expected impacts of the Federal Affordable Care Act ("Obamacare") on the City Employees?

How much coverage should be provided to spouses and children?

What parts of their Health & Dental Plan costs (percentage of premiums, co-pays, etc.) should the Employees pay?

About 85% of the City's Worker's Compensation costs are paid to L.A.P.D. officers. The most frequent claims come at or just after retirement and relate to back pains attributed to the 30# Brown (Utility) Belts worn by active duty officers. These claims are almost "automatic" because of a State Law requiring Worker's Compensation Judges to grant them life-time benefits.

Does the State Law granting special consideration to policemen's Worker's Compensation applications need to be reconsidered?

Can a program of physical fitness and verification be instituted to help officers avoid these work-related injuries and their costs?

L.A.P.D. officers work 3 days a week, 12 hours a day to receive "full pay." This limits the time available to get to "know their beat" and its citizens and the ability of the citizens to know their local police officers ("Community Policing"). Officers spend hours filling out forms after every citation and every arrest. They incur and bank thousands of hours of over-time which are paid at the time they retire.

Why have the Mayor and City Council accepted this L.A.P.D. officer time schedule and these other conditions? How can we decrease or eliminate excessive over-time?

When will our policemen be supported by Information Technology which will document the details of their citations and arrests on the scene?

Many reviews of the City's Collections Activities (e.g. the Controller's Report, the Controllers Audits, the CORE report, the Inspector General's recommendations, the LA2020 Commission report, the NCBA White Pages and "outside" sources) have shown that most if not all of the Structural Budget Deficit could be eliminated by improved collections. It is clear that we can not rely on the several City Departments which administer Taxes, Licenses, Permits, Fees and Fines to

collect those debts quickly or efficiently. It may take 12-24 months before a debt is “turned over” for “hard collection.” Many Departments “outsource” their collections and that is very expensive. Clearly, the City does not have fair, consistent or effective policies or practices when it comes to collection of its debts.

When will the Mayor and City Council establish a Central Collections Agency?

Several years ago, the City Attorney introduced and the NCBA's began to support an Administrative Citation Enforcement (ACE) program to convert many of the misdemeanors into infractions allowing them to be handled like traffic tickets. This could avoid the delays and expense of court trials (court costs, attorney preparation and litigation costs, etc.) and speed the collection processes.

Will the Mayor and City Council reconsider the ACE program and include it in the Central Collections Agency activities?

Privately-owned Parking Facilities almost universally require their patrons to pay in cash and then the City trusts them to estimate and pay a 10% tax on their total income. This prevents their patrons from the convenience of paying with credit cards and verifying these expenses for tax purposes, when appropriate. These practices have caused the City to lose millions in unpaid licenses and under-reported Taxes.

When will the City convert to a Parking Facility Licensing policy which issues permits and taxes Parking Facilities on the basis of size and type and includes those debts in the Central Collections Agency activities?

The City shares the frustration of the medical profession, in general, in its difficulties to collect payment (from HMOs, State and Federal sources) for its L.A.F.D.-based Emergency Medical Services. Ambulance transports for Medi-Cal, Medi-Care and HMO patients) are paid at rates less than their costs. The City does not charge for the direct medical services received at the scene. These services vary from simple (but valuable) reassurance to life-saving resuscitation.

When will the City recognize that it is providing these valuable services and take action to bill and collect available and appropriate City costs?

CONCLUSIONS

It has not been an easy task to gather the background which prompts these questions. It has been a challenge to present these questions, here. We must recognize that your task, to answer these questions and take appropriate action, is much more difficult.