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."

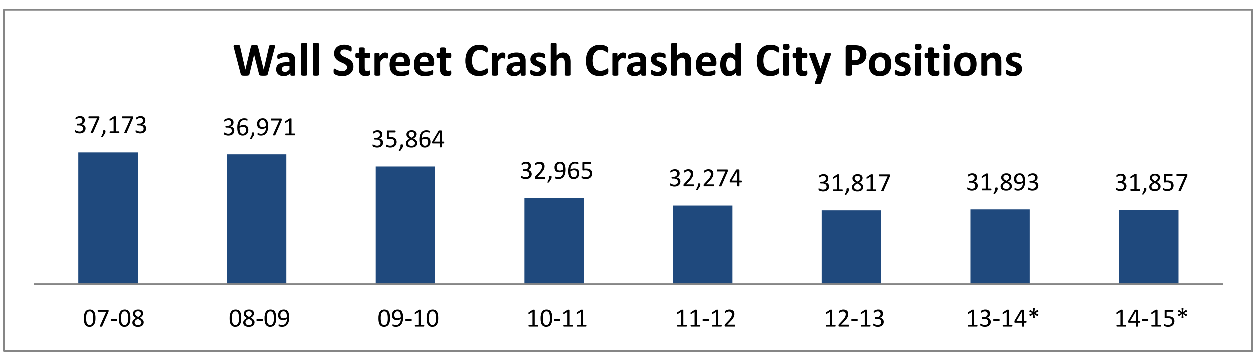
4. Quality jobs and City efficiencies reviews and offers solutions to staffing and service ground level issues and specific roadblocks that we believe are hampering effective delivery of services to taxpayers.

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."

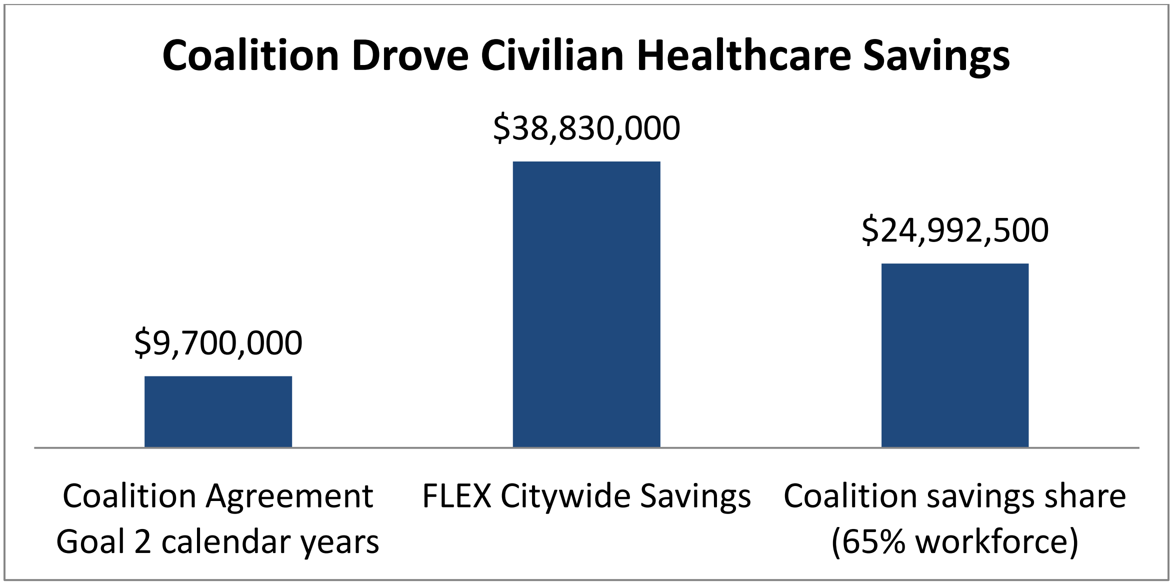
As the public naturally looks at the City workforce as one body, we do need to distinguish ourselves and our members as having driven change. Due to our agreements, the city shrunk its workforce by 5,000 positions because we agreed to open our closed contracts, defer wages, reduce benefits and help fund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

Table 1



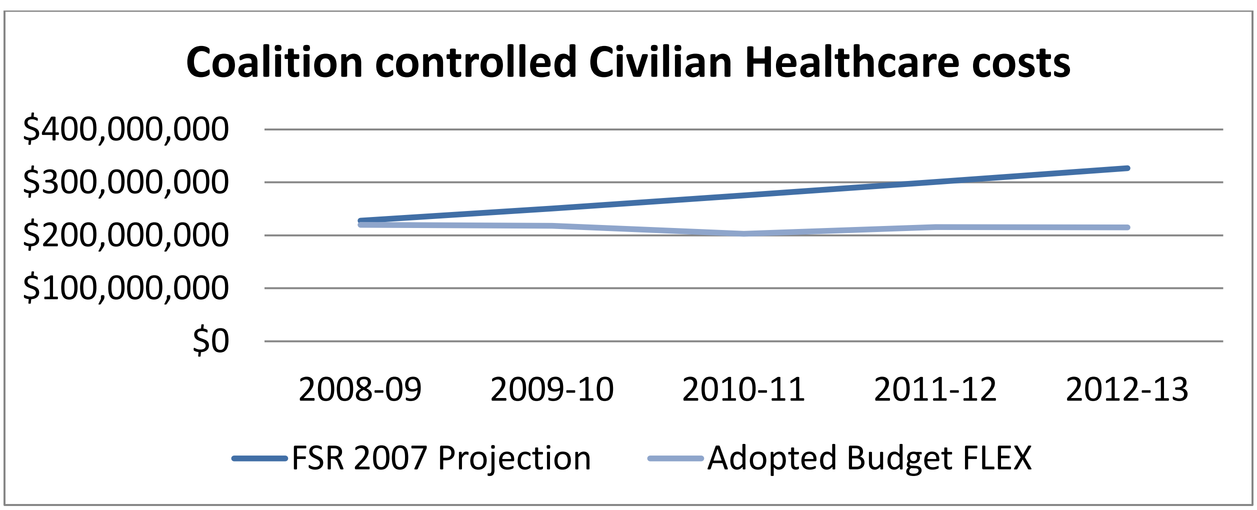
We saved taxpayers tens of millions of dollars in health care costs alone. To address rising costs in healthcare, the Coalition drove cost reduction goals of FLEXCARE, the Civilian health plan. We agreed to cost saving targets for two calendar years (2012, 2013). In both instances, these goals were exceeded. 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.



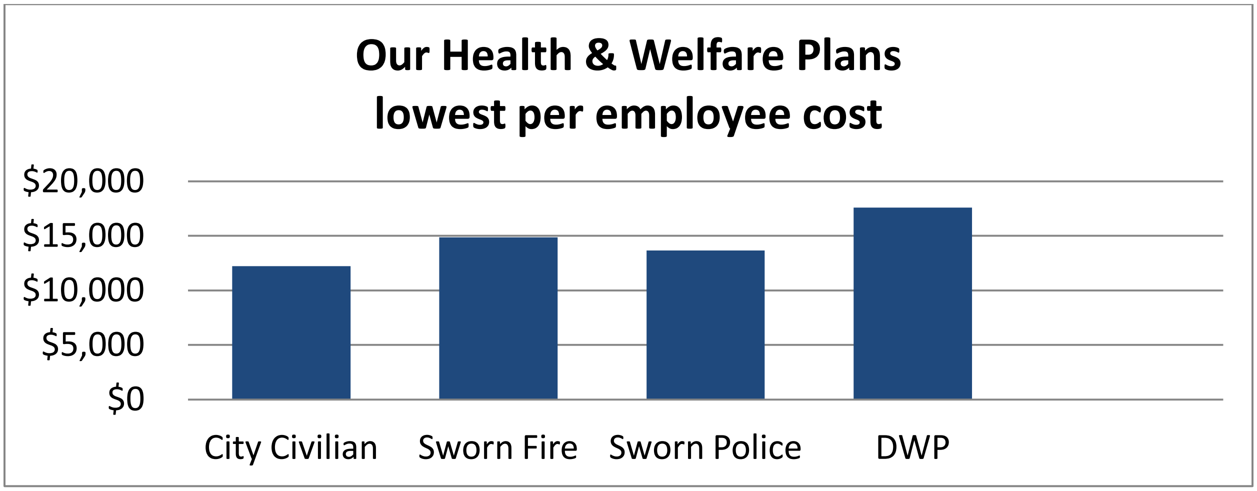
This was the result:

Table 3.



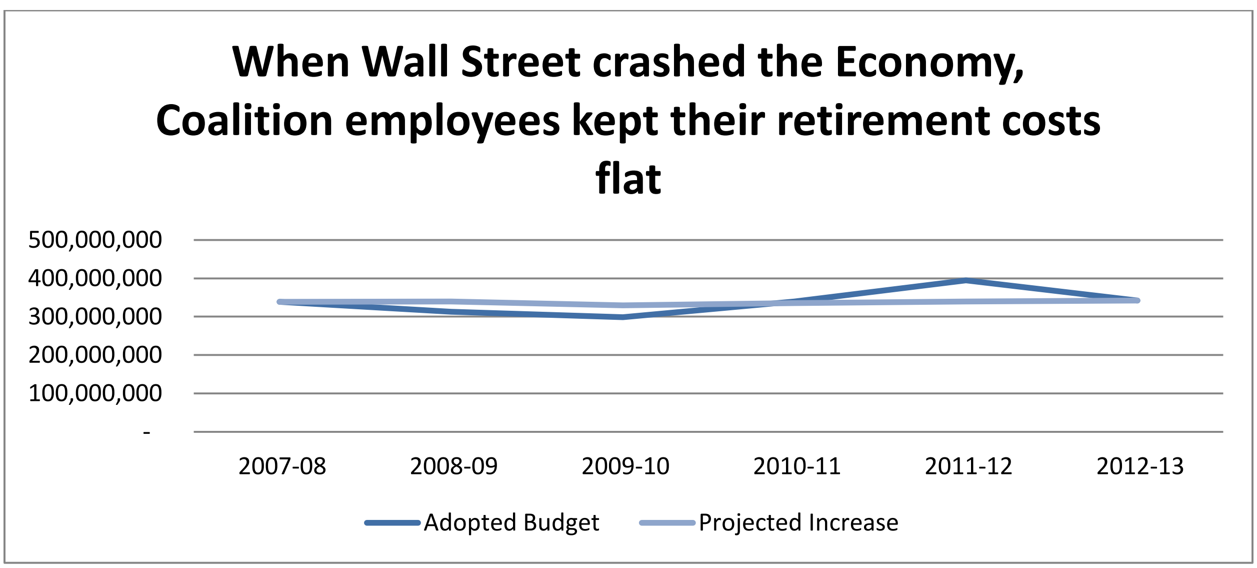
Furthermore, our healthcare costs are the lowest in the city's workforce.

Table 4.



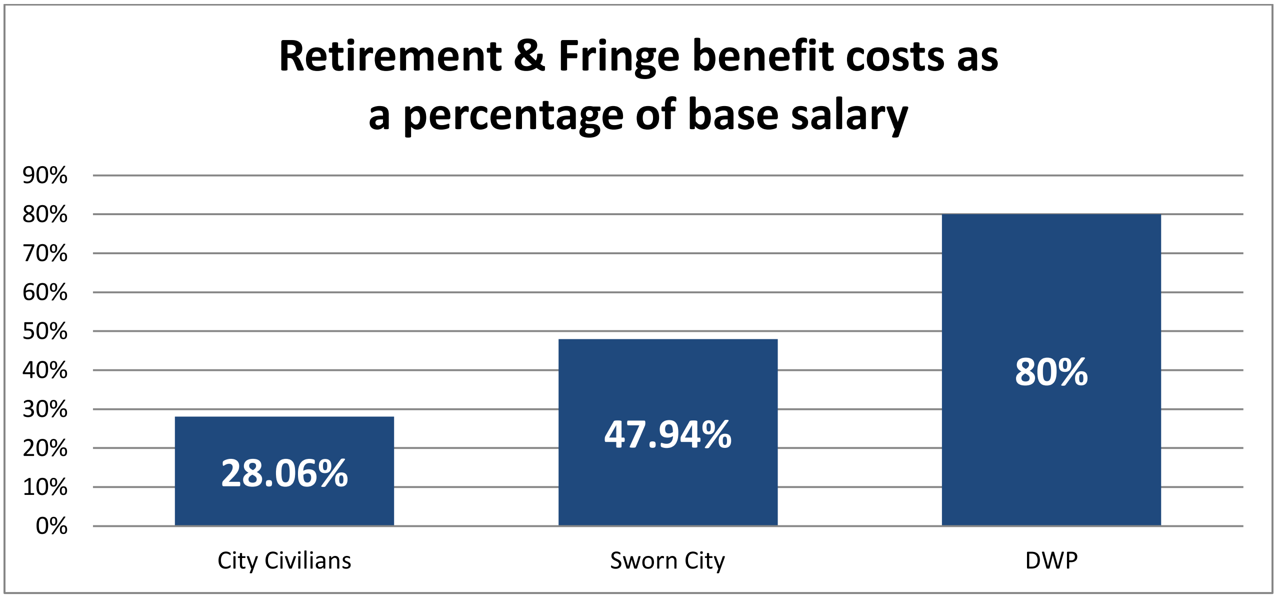
While some other groups of city employees kept their retirement contributions at status quo, our members agreed to increase payments from 6 percent to 11 percent of their salaries--far more than even recent state law pension reforms will ultimately require of public employees elsewhere in California.

Table 5.



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

Table 6.

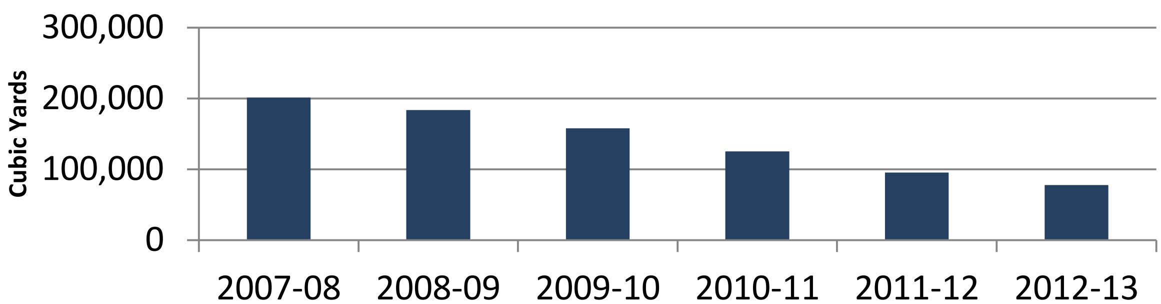


2. Effects of the City's Austerity Approach on Neighborhoods

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.

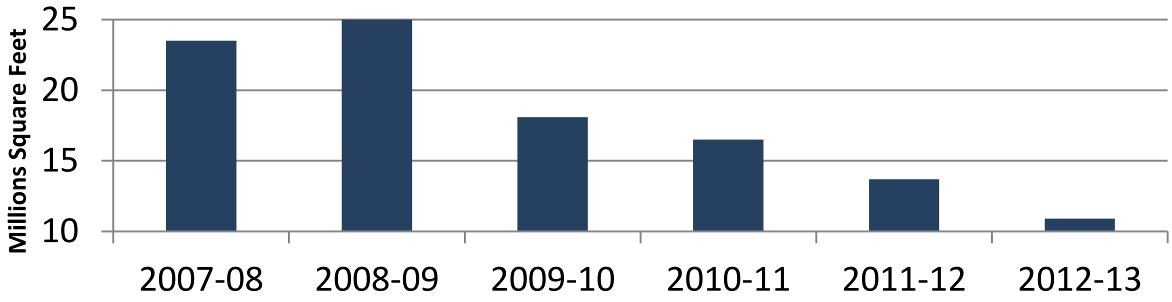
AUSTERITY IMPACTS TO OUR STREETS

Table 7: Street Services: Debris Removed



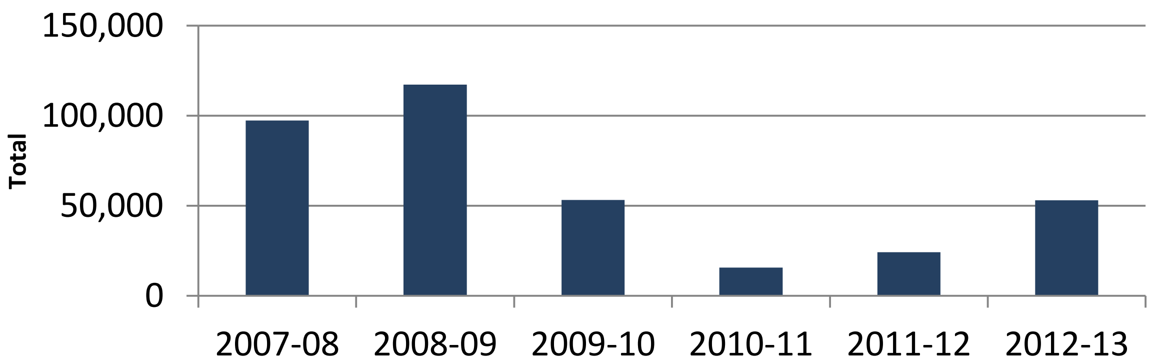
Street Services' capacity to remove debris has been reduced by about 61 percent since 2008.

Table 8: Street Services: Land Cleared



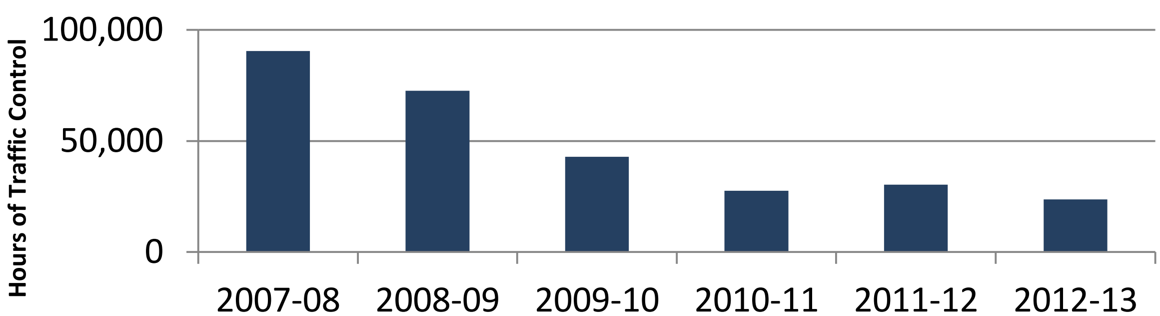
Street Services' capacity to clear land has been reduced by about 54 percent.

Table 9: Street Services: Trees Trimmed



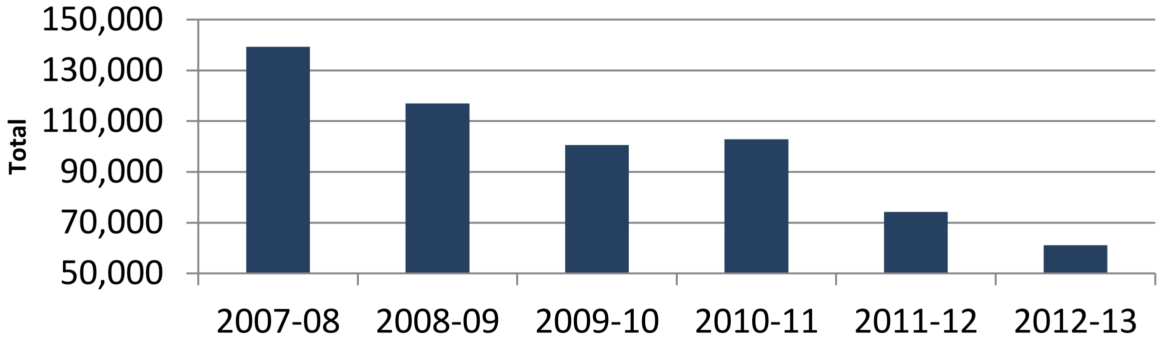
The City has dramatically reduced tree maintenance—endangering the health of our urban forest and creating public safety hazards with falling branches.

Table 10. Transportation: Intersection Traffic Control



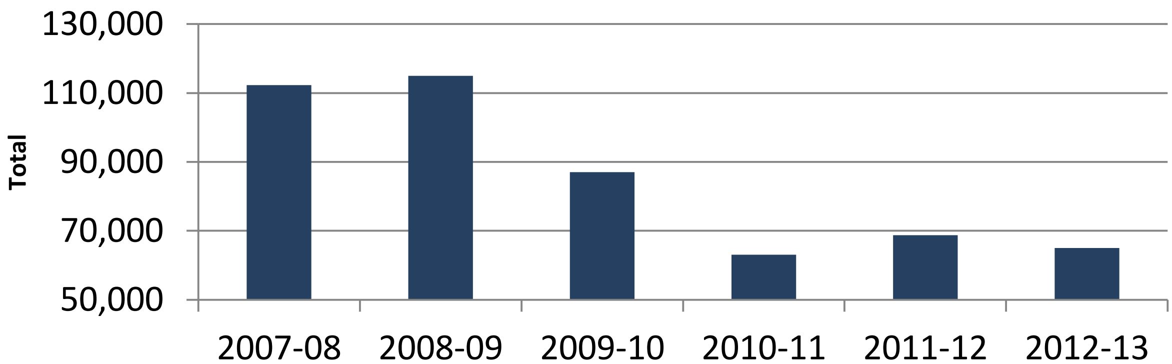
The City significantly reduced the number of traffic control offers at City intersections during peak hours, during times of technical dysfunctions, and during special events.

Table 11. Transportation: Abandoned Vehicles Abated



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

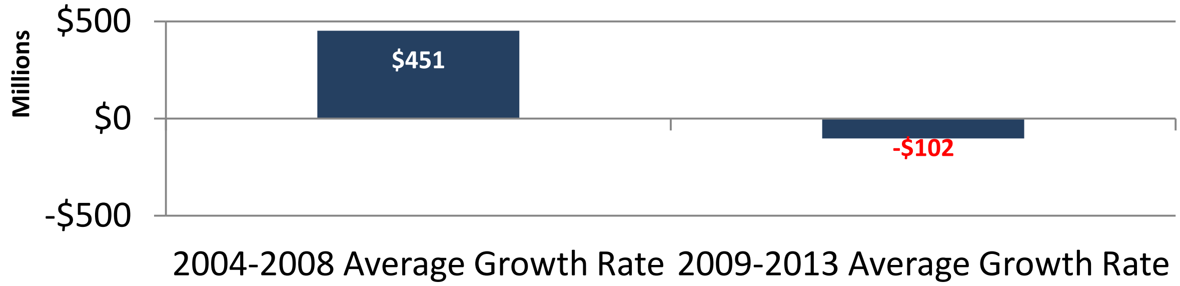
Table 12. Sanitation: Flood Control Catch Basin Cleaning



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.

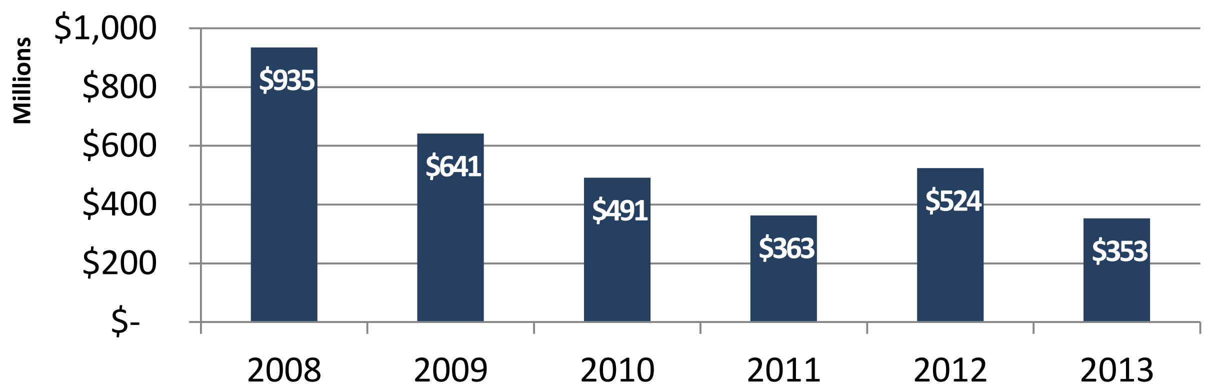
STATE OF THE CITY'S FINANCES

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



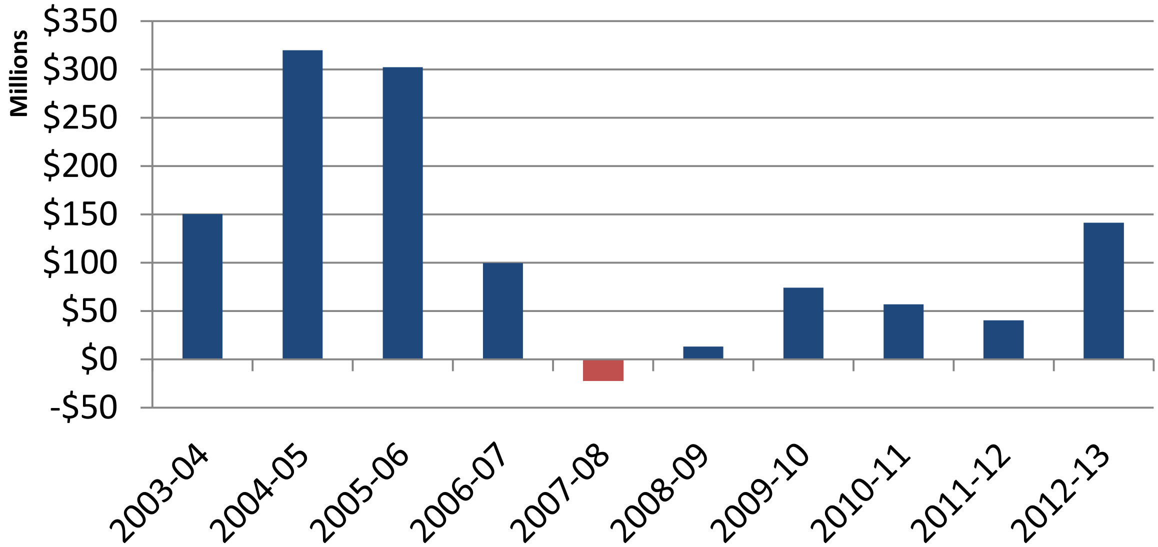
City Spending: the City managed to keep budgets in the black by making significant reductions in spending on governmental activities. In the five years leading up to the recession, the City, on average, increased appropriations by about $451 million per year. In the last five years, since the onset of 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



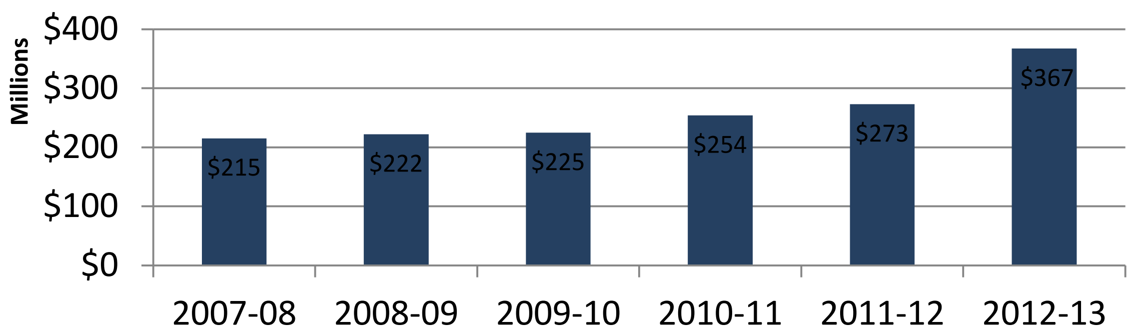
City Spending: the City will face significant long-term infrastructure problems and fall behind other cities in the region if it does not begin a process of infrastructure reinvestment that includes restoration of pre-recession funding.

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.

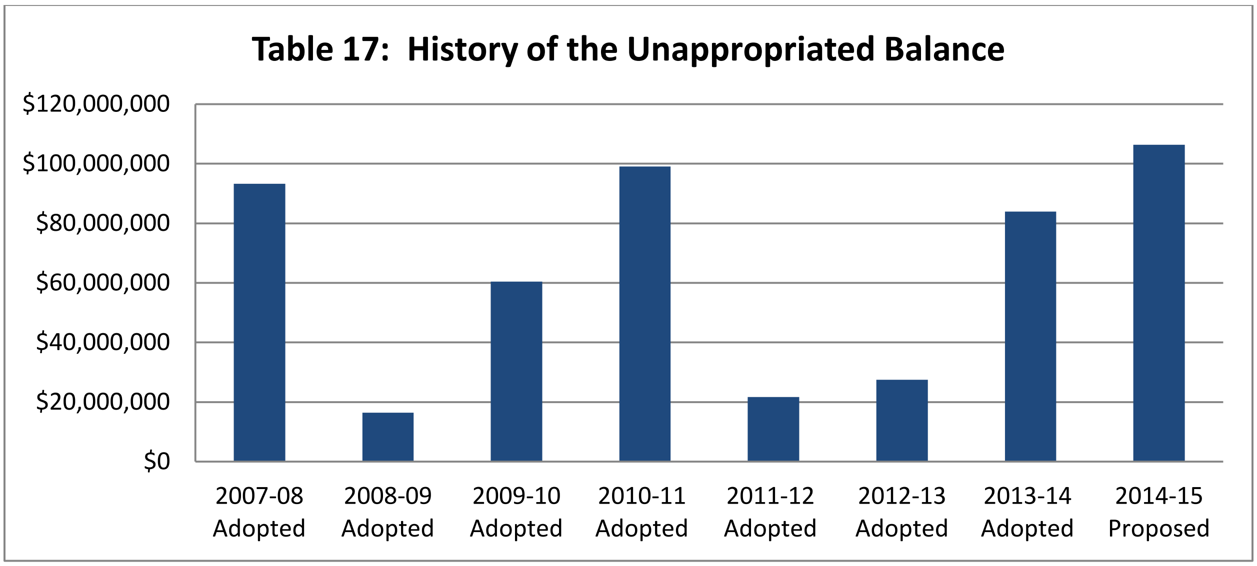
Table 16: Total Cash Available for Discretionary Appropriation in the General Fund



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.

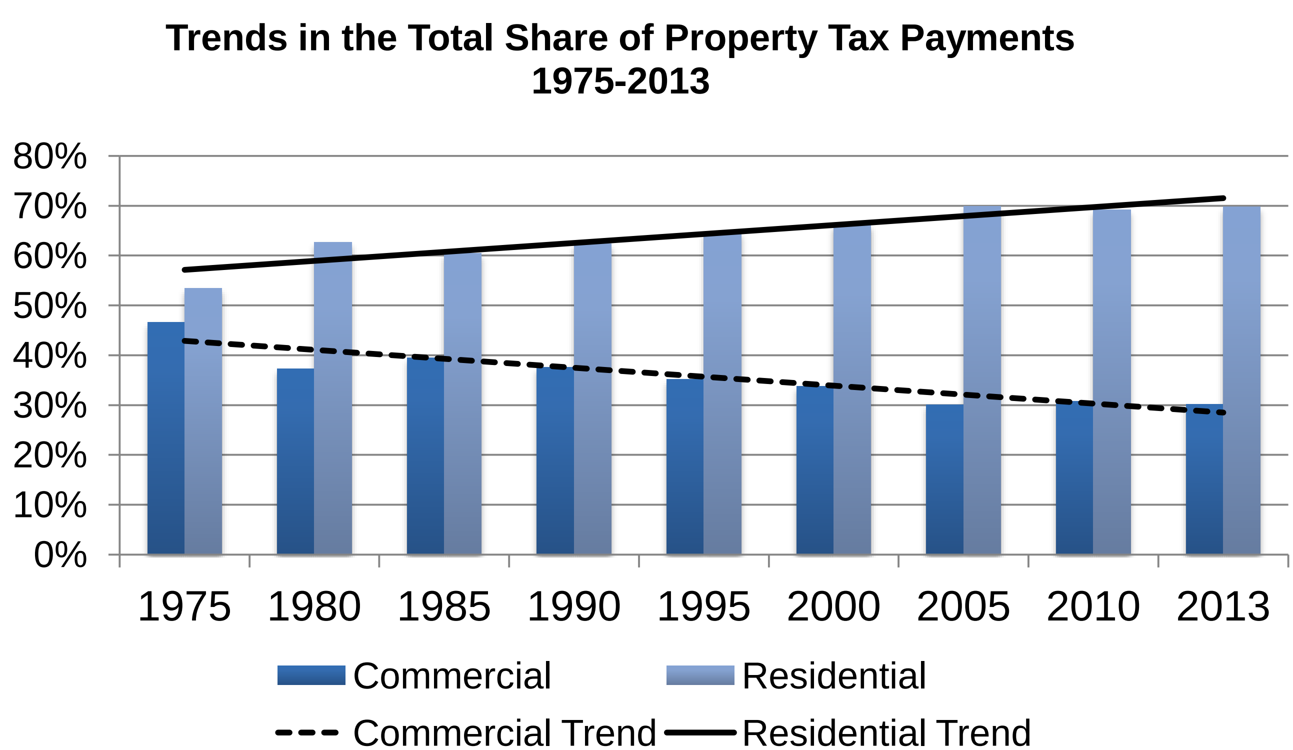
[3] The court case is Federal Housing Finance Agency v. City of Chicago, Case 1:11-cv-08795.

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]

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[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**

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.

[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. 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

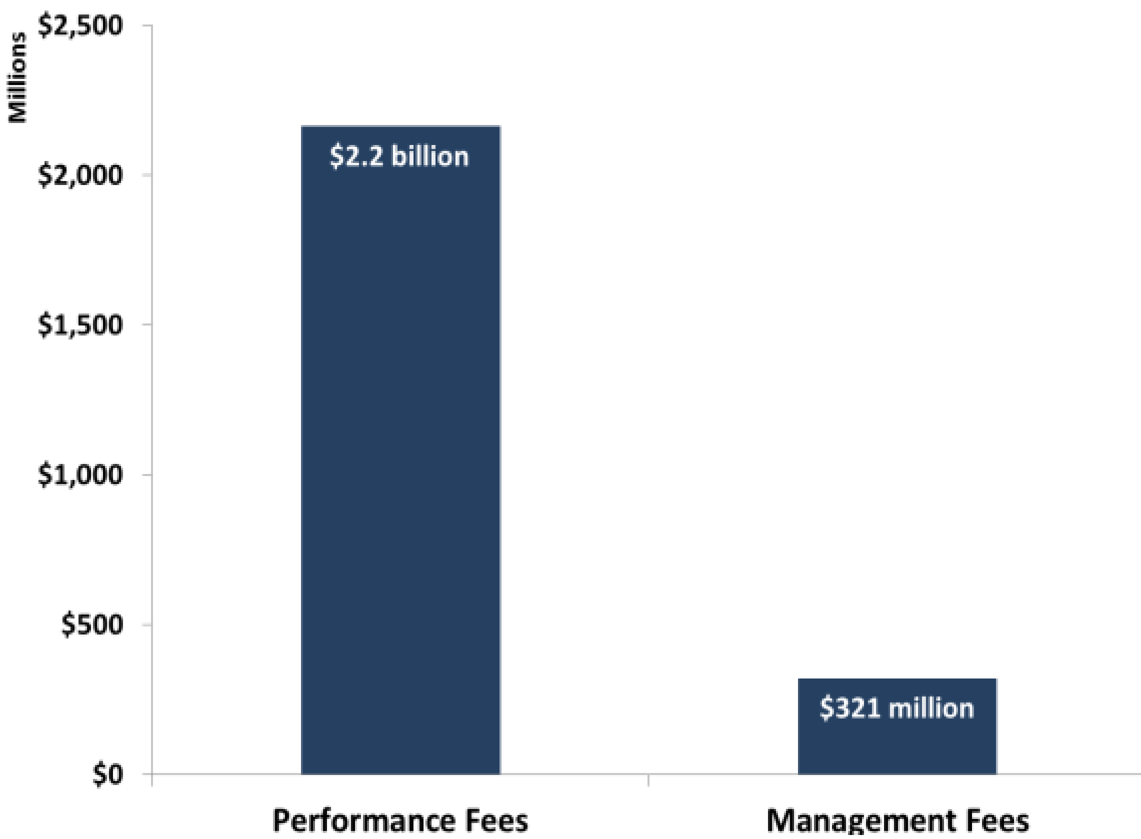
Last year, the City's treasurer invested more than $7 billion in assets. Although we did not identify the exact amount of the management fees associated with these investments, we base our estimate on extensive consultations with academic experts and current and former private equity and hedge fund managers. 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

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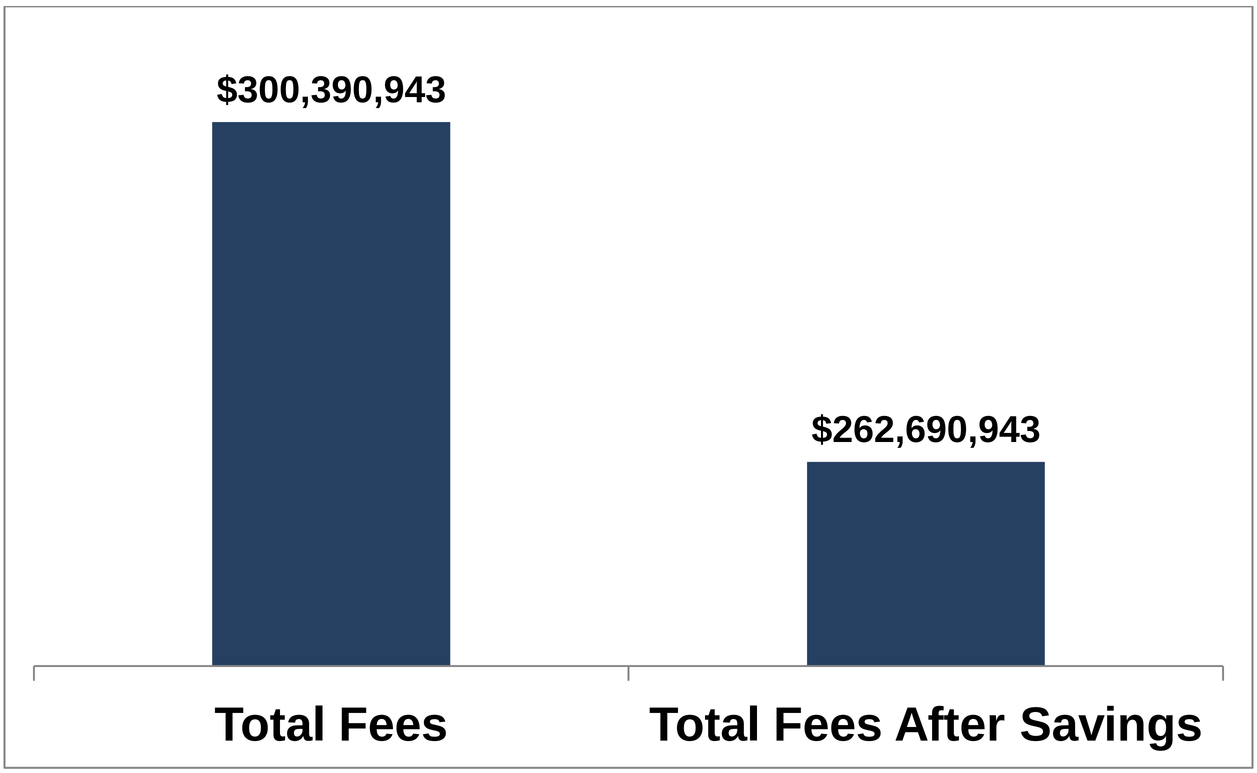
[9] http://corporate.morningstar.com/us/documents/samplereports/statepermanentfunds.pdf
[10] http://www.breckinridge.com/insights/whitepapers.html?id=1240
[11] http://www.tre.wa.gov/government/schoolBondGuarantee.shtml
[12] http://www.tre.wa.gov/government/schoolBondGuarantee.shtml

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



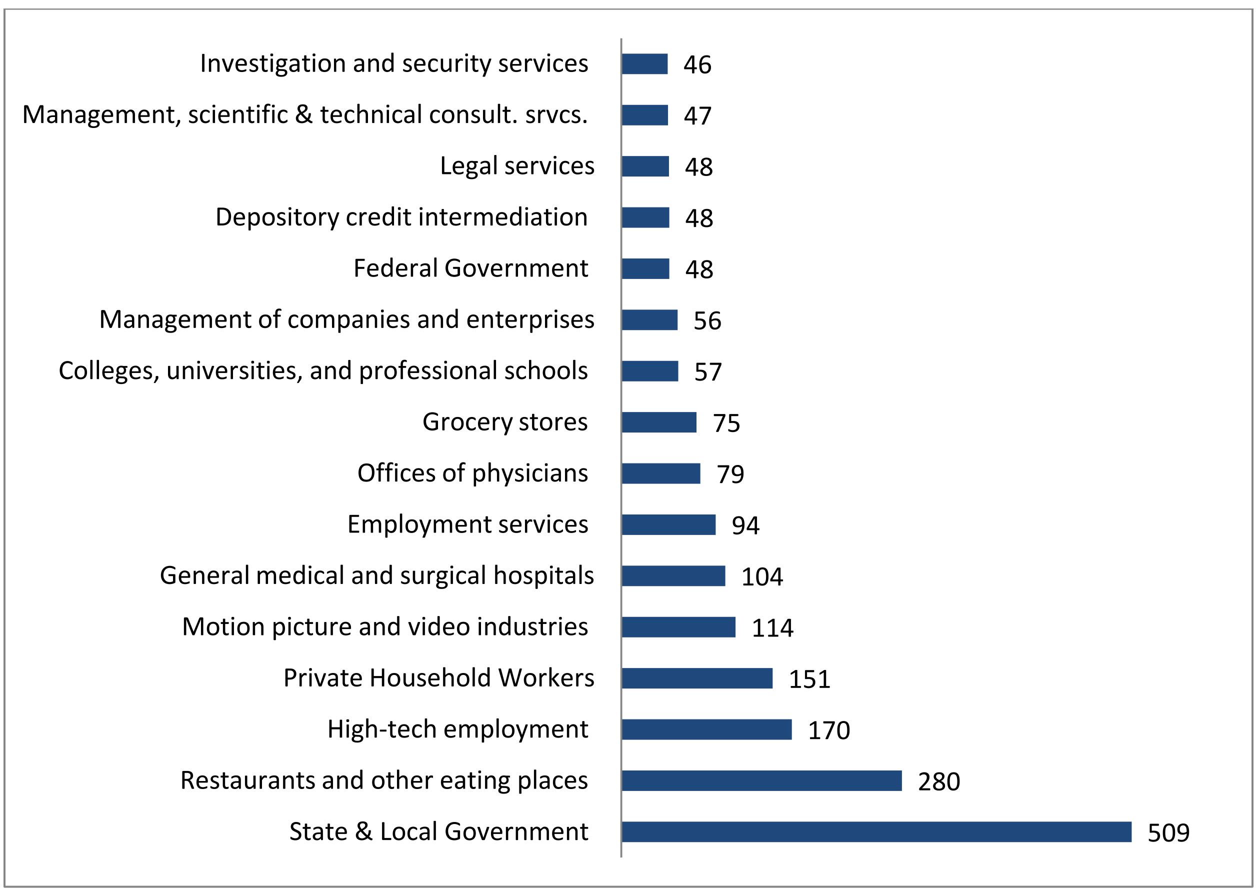
4. Quality jobs and City efficiencies

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. Wall Street itself has noted that even as LA's "Total payrolls advanced…local government job cuts tempered the gains." "Local and federal spending and payroll cuts remain a near-term risk…making [LA] an average performer."[13]

The Economic Policy Institute (EPI) quantified public sector job loss in a formula. <u>For every dollar cut in salary and supplies of public-sector workers, another $0.24 is lost in purchasing power</u>. 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

[13] Moody's Report Card, December 2013.

formula, the loss of 5,000 good city jobs resulted in a corresponding loss of 3,500 private sector jobs.[14]

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 create dead-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.[15] 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.

[14] Heidi Shierholz and Josh Bivens - July 2012 http://www.epi.org/blog/years-recovery-state-local-austerity-hurt/
[15] 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

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.
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 Canvassing 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 clearer than ever than the department needs regular clerical staff. Knowledge of how systems work could not be more important in a department with an $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

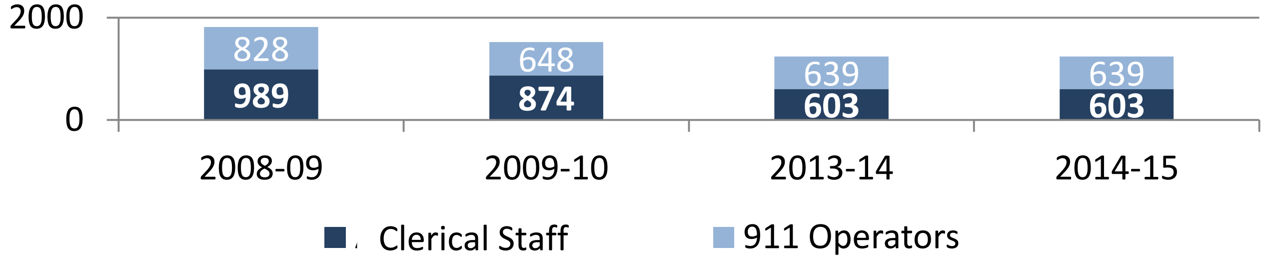
In the last two budgets, we have raised the issue of civilianization in the Police Department as a necessary efficiency. We appreciate that the Budget and Finance Committee requested a report back from the Chief of Police regarding sworn officers working in civilian posts and offer our analysis as well. 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, and 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.[16]

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.

We are not experts on the hiring of neither 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.*

[16] Supplementary book page 108 paper 115 PDF

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-the job 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