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Economy & Efficiency Commission
Meeting Minutes

MINUTES OF THE COMMITTEE OF THE WHOLE
ECONOMY AND EFFICIENCY COMMISSION

WEDNESDAY, APRIL 7, 1993
KENNETH HAHN HALL OF ADMINISTRATION
500 West Temple St., Los Angeles, CA 90012

Editorial Note: Agenda sections may be taken out of order at the discretion of the chair. Any reordering of sections is reflected in the presentation of these minutes.

I. CALL TO ORDER

Chairperson Buerk called the meeting to order.

II. APPROVAL OF COMMISSIONER'S ABSENCES

COMMISSIONERS PRESENT:

Gunther Buerk, Chair
Betty Trotter, Vice-Chair
George Ackerman
Judith Brennan
Jack Drown
Jon Fuhrman
Chun Lee
Roman Padilla
Robert Philibosian
Daniel Shapiro

COMMISSIONERS EXCUSED:

Fred Balderrama
Richards Barger
Marshal Chuang
David Farrar
Louise Frankel
Dr. Alfred Freitag
Carol Ojeda-Kimbrough
Randy Stockwell

COMMISSIONERS ABSENT :

Dr. Mike Gomez
Efrem Zimbalist, III

III. CONSIDERATION OF MINUTES

MARCH 3, 1993 COMMISSION MEETING

Commissioner Buerk asked if there were any amendments or objections to the March minutes. There were none.

Resolved that: the Committee of the Whole approve the minutes of the March Commission meeting.

Motion was seconded, voted, and approved.

IV. OLD BUSINESS

DEPARTMENT OF HEALTH SERVICES STUDY STATUS

Chairperson Buerk announced that Commissioner Zimbalist has resigned as Task Force Chair due to his work schedule.

Chairperson Buerk is in the process of selecting a new Task Force Chair. It was reported that Mr. Staniforth had met with Linda Newton, the Director of Field Studies at the UCLA Graduate School. Ms. Newton was presented with the work plan and was asked to review the plan with her department to determine the level of support they would contribute to the study. Additional conversations with UCLA would take place upon Mr. Staniforth's return to Los Angeles.

PENSION FOLLOW-ON STATUS

Commissioner Freitag was absent. Mr. White reported that independent counsel was in the final stages of Phase IV of the report. The final report will be available in a few weeks, although not by the April 15th deadline. Chairperson Buerk requested that a draft be delivered to the Task Force before the final report from legal counsel is issued.

LIABILITY AND RISK MANAGEMENT STUDY STATUS

Commissioner Lee reported that the Task Force has scheduled a meeting for the 12th of April. The project is on schedule and Phase I of the project has been completed and Phase II of the report will be completed on April 19th.

UNINCORPORATED AREAS BUDGETING TASK FORCE

Commissioner Gomez was absent. Mr. White reported that a status report had been sent to the Task Force by the Executive Director. Mr. Staniforth had followed up a request of the Task Force, requesting expenditure and revenue information for unincorporated areas. The CAO's office does not have data available in this format. Due to the budget situation, it was unlikely that this information could be furnished in such a manner.

Commissioner Padilla suggested that a possible source for this information would be the Urban Research Section of ISD, which completed a study on cost benefit analysis in regards to undocumented workers. They created a data base of all the revenue generated by residents in the County. The population was broken down by immigrant population and then the rest of the population, and by cities. The Project Director was Emmanuel Marino.

PROPOSITION A\ CONTRACTING STATUS

Commissioner Trotter reported that the Task Force will meet on April 13th to discuss the in-depth draft report completed by the Executive Director.

In matter relating to the Public Access report, Commissioner Trotter reported that the Board asked the CAO to report in 45 days on the feasibility costs of televising the Board of Supervisors Meetings.

Commissioner Trotter stated that a Constitutional amendment, SCA 17, has been introduced in the State Legislature in Sacramento that would increase the Los Angeles Board of Supervisors from five to eleven members. This would be based upon the population of charter counties.

COUNTY BUDGET AND ECONOMIC GROWTH TASK FORCE

Commissioner Philibosian reported that the Task Force would be holding its first meeting on the 15th of April. A summary of reports concerning Economic Growth in California, which was developed by the Economic Development Corporation, has been distributed to the Task Force.

V. PRESENTATION

Chairperson Buerk introduced Mr. Fred Silva, Chief Financial Advisor to Senator David Roberti, President Pro-Tem, California State Senate. Mr. Silva spoke about the State Budget and its impact on Los Angeles County.

Mr. Silva started his presentation by putting the context of the State's fiscal problems in relation to County agencies, explaining how the State arrived at this point and what is being done to remedy the situation. The State and local governments used to have separate revenue sources for their operations. Local agencies relied upon the property tax which was locally levied. If a local agency wanted to provide a higher level of service, it raised the property tax rate. The sales tax, implemented 30 years ago, was created to offer local governments a broader revenue base. It is a locally levied, state collected tax.

In 1978, elements of Proposition 13 turned that local tax into a state administered tax, although it was still locally levied. Most proponents of Proposition 13 cared only about the limitations on the tax rate and growth in the assessed value of appraisal of property. Local governments have no control over setting property tax rates and revenues they produce.

The property tax is used for a variety of purposes. It is used for educational, municipal, and county purposes. After 15 years of interrelating the state and local financing systems, the state is able to take part of the property tax to solve its fiscal problems. To keep the schools funded, for example, the governor would use more of the property tax. Half of the Governor's budgetary solution comes from "others," local agencies and the Federal Government. How did we get this way?

In the early eighties, the government sector grew at a rate of 8% per year. Taxes were also reduced. The economy in California is diverse and grows rapidly. Looking at post- World War II recessions, the average length was 18 months. When George Deukmajian took office there was a mild recession. He raised taxes, raising $800 million in new revenue. Spending remained constant. Personal income growth allows government spending to continue. The government sector is built upon the assumption that there is a fairly high demand for services and a low tolerance of taxes. If personal income growth is 8%, then there is no problem. California is a high growth state. If a recession hits, you recover fast. At a growth rate of 3- 4%, problems develop.

In 1990, a new governor comes in to office. He learns from past budgetary cycles to do what you can to stretch out the solution: Borrow money to maintain important programs, then climb out fast. Governor Wilson raises revenue, cuts spending a little, and makes some one-time changes to get us into the 1992-1993 year. Today, the recession is in its 35th month. There will not be a return to 8% growth because there has been a fundamental shift in the California economy.

The state-local finance system has to change at the spending and revenue level. If this does not occur, then services have to be dismantled. A decision has to made about service levels and what services should be provided. We are in a quagmire because local agencies no longer have the power they used to have with respect to their own local resources and we have not reduced the spending base sufficient to match the state's revenue base. The State went out to pick up additional resources from the outside to avoid some hard choices.

There are two avenues of approach. The first is to incrementally make our way through the next two budgets on an annualized basis with major dislocations due to service cuts which will not cover the gap, creating a deficit of $ 3-4 billion dollar range for June 1994. The State hopes to make up the shortfall in later years. The problem is the personal income growth will be flat. There are not sufficient resources to fund services that are demanded.

In looking at the second approach, which is a multi-year budget, one has to examine the level of service and what role the State should provide in delivering these services. Where does the state want to go? The State has not embarked on that discussion yet. The Office of the Legislative Analyst published a report on Making Government Make Sense. This report looks at fundamental governmental responsibilities and gives us a format. This report takes a centrist view and says that the State should be in the income maintenance business, not the local governments. There are community based social services that should stay at the community level and not the State level. To do this, resources need to be addressed. You have to give local agencies the ability to raise revenue, through the property tax. This will require a constitutional amendment. Allow the local agencies to set tax levels with a cap, and provide for voter approval. The only way to do this is on a multi-year basis, preferably a 2-3 year plan. If this is not done, local revenue will be taken to solve State problems.

Commissioner Padilla asked what the Board of Supervisors can do in respect to advocating a certain budget plan.

Mr. Silva stated that counties have dual responsibilities- local services deliverers and administrators of State policy. Both the State and the counties must look at their roles in this situation. The best example of this is general assistance (income maintenance). In the old days, when there were smaller differences between counties and mobility was restricted, you could operate a county-based system. This is no longer the case. Systems dealing with indigent welfare and health ought to be generated by State policy. In the program realignment of 1991, the device was to fund indigent care through the sales tax increase. The realignment was one of the most fundamental things the State has done. In respect to local services, the State cannot continue to steal its own resources for local services, which is where we are headed with the Governor's plan.

Chairperson Buerk asked why the counties continue to provide services such as health services, income maintenance as an agent of the State and not let the State administer these activities on its own?

Mr. Silva answered that there needs to be a local decision making, service delivery apparatus. It would be inefficient for the State to operate the foster care system from Sacramento with lots of building throughout the State. Many social services should be operated locally but there needs to be a mechanism to fund these services. Community mental health programs should be in the community. The problem is that these programs were never funded.

Chairperson Buerk asked which services should the State take over from county responsibility.

Mr. Silva replied income maintenance, (general assistance). In response to a question concerning the continued suspension of the net operating loss provision, Mr. Silva explained that in 1991, in State business taxes, a provision was enacted to allow businesses to carry their losses forward. This is one of the most important recessionary policies the State can have. For two years, it was suspended. Coming out of a recession, it is a good idea to suspend this provision. During a recession, suspension is not a good idea.

Business taxes are very competitive in California. The State has net operating loss carry forward, research and development credits, no taxing of inventories, and businesses who have been here for a while have property taxes based on a 1975 base year. There is a political argument that business taxes are anti-competitive, but the data suggests otherwise. Regulatory fees and Workers Compensation are another matter. In 1987, business taxes were reduced from 9.6% to 9.3%.

Commissioner Drown asked about the balance budget provision in the Constitution, and what is the State doing to retain businesses?

Mr. Silva replied by stating that there is a myth about balancing budgets in California. There is not a balanced budget requirement in the Constitution. There are two relative provisions. One is that the Governor has to submit a balanced budget. If his expenditures exceed revenues, he has to state where he will get the revenues. Another section states that no public agency can borrow more that $300,000 without a vote. This is an 80 year old provision. If the State gets into trouble, it carries a deficit. From 1932 to 1942, the State never had a balanced budget. In 1932, the State Controller didn't have any money and handed out registered warrants. Instead of issuing individual warrants, the Controller wanted to issue one large warrant for his payroll. He went to Court, and in the Riley case, the Court said he can borrow the money for cash-flow purposes but not for deficit purposes. This was a distinction without a difference.

The question of the business climate is critical to changing the economic trends that are in place. The State has not developed a comprehensive economic growth and development policy because the State views this as a locally based activity carried out through the Chambers of Commerce. Now, the State has to play a larger role in economic growth.

VI. NEW BUSINESS

EXECUTIVE DIRECTOR'S CONTRACT

Chairperson Buerk asked that the meeting go into closed Executive Session and that only Commissioners be present. It was decided that the Executive Director's contract should be discussed and decided upon in an open meeting and the Executive Session was ended.

Chairperson Buerk stated that the Commissioners had received a copy of the Executive Director's contract and a letter to the Board recommending that Mr. Staniforth's contract be renewed. The contract was based upon a meeting between the Executive Director and Executive Committee of the Commission.

There were some changes to the contract. The pay has been increased by a cost of living increase of 3.4%; a provision on the scheduling of time which gives the Executive Committee more control over the times when the Executive Director will be available during the month; and a provision that improves the liability protection of the Executive Director.

Resolved that : The Committee of the Whole approve the contract for the Executive Director. It was seconded.

Chairperson Buerk asked for any discussion on the motion.

Commissioner Fuhrman stated that although his point is procedural, the letter to the Board suggested that the whole Commission had approved this contract. There is a percentage increase in the Executive Director's salary at a time when the Board is considering asking employees to take an 8.5% pay cut. He could not support an increase when the rest of the County is going to decrease salaries. There should be some stronger language recognizing that the Commission may be short funded this year, leading to a salary reduction.

Commissioner Brennan was a little reluctant to tie a salary increase to County employees. This would cloud the independent contract status of the Executive Director.

Chairperson Buerk explained how the Executive Committee decided upon a salary increase. This was in part based upon a past verbal agreement with the Executive Director in which he would receive a step increase beyond inflation in the second year based upon performance. In light of the County budget situation, an increase above inflation did not seem to be wise, so a cost of living increase was negotiated.

Commissioner Lee stated that he has served the Commission for six years and has never seen an Annual Report such as the one produced this year.

Commissioner Buerk reminded the Commission that it is not only what the Commission decides is appropriate, but one must be sensitive to the reaction of the Board of Supervisors. The Commission should think about what the Board will approve and what the contractor will be willing to accept. At this point, we do not have a contract with the Executive Director and he could decide to look for employment elsewhere. That is a risk, if what we propose to the Board is not acceptable to the Executive Director. At that point, the Commission would be forced to conduct an expensive and time-consuming search for a new Executive Director. All of these factors need to be addressed.

Commissioner Drown asked if Mr. Staniforth was happy with the proposed contract.

Commissioner Buerk stated that the Executive Committee and Mr. Staniforth agreed on this version as acceptable.

Commissioner Drown stated that he was very pleased with the Annual Report produced by Mr. Staniforth.

Commissioner Trotter stated that the Synopsis was also a new publication that the Commission has never had before. He has put in additional time "above and beyond" on the Prop A study which would have required an outside consultant to do the same level of work.

Commissioner Fuhrman agreed with all the other comments but reminded the Commission that all the other County employees had reasonable expectations for COLA increases and they may take an 8% pay cut, or worse, many may be laid off, regardless of their performance. Issues of equity, fairness, and appearance override other considerations.

Commissioner Shapiro related his experience as a member of the Finance Committee at an L.A. High School. They use a process called shared decision making. He sees the impact of the current budget problems and it is catastrophic. The State has withheld $30 million dollars in funding for County Court High Schools and will RIF 200 employees. He emphasized Commissioner Fuhrman's position, in that the Commission is sitting here with their heads in the sand, if they do not acknowledge what is happening with a shortfall of billions of dollars with broad based implications. These issues need to be considered. It is a good job that Bruce has done, but there is a possibility of certain criticisms in the work that he has done as well. There was a large encounter session at the last Commission meeting in which Mr. Staniforth was partly responsible. The Commission should not look at this situation with rose colored glasses. The Commission has to be sensitive to the budget and the fiscal realities of the County.

A caveat needs to be placed in the contract that Mr. Staniforth would need to take a cut similar in kind to that which would be requested of the rest of the County employees. If he is not willing to do that, from a negotiating standpoint, we should consider another director.

Commissioner Drown asked if Mr. Staniforth's position was unique, as an independent contractor for a Commission.

Chairperson Buerk responded that this Commission was unique in that regard. The Commission is more independent than other Commissions, but we are also dependent upon the County budget for funding. As for Supervisor's reactions, there has been no opposition, but there are some uncomfortable feelings in regard to the cost of living increase.

Commissioner Brennan felt that it should be clear to Mr. Staniforth that eliminating his cost of living increase has nothing to do with his performance, but was due to other considerations.

Commissioner Trotter stated that the mission of the Commission is to save the County money and you have to spend some on salaries to do that, instead of having the disruption of looking for a new director.

Chairperson Buerk summarized that the Commission and the Board determine whether this contract will be approved. If all Commissioners make an effort to convince their appointing Supervisor that they should sign the contract, it will be signed. If on the other hand, there are some misgivings, and this becomes an issue, it will not be signed. It is really that simple. Would the Commissioners be comfortable if we recommend that the contract stay at the same level as last year and be willing to make an effort to convince their appointing Supervisor to sign this?

Commissioner Lee stated that Mr. Staniforth did not take another position offered to him in Santa Barbara due to the verbal agreement he made with the Commission. If he leaves, the Commission will have to spend more money and time to look for another Executive Director who may not be as good.

Chairperson Buerk stated that the Commission should speak with Mr. Staniforth about eliminating the cost of living increase to see if that is agreeable. If he agrees, then we will revise the contract and send it to the Board.

Commissioner Trotter felt it should be made clear that the elimination of the increase is no reflection on his performance but is due to circumstances.

Commissioner Brennan felt that the Commission should put the ball back in Mr. Staniforth's court and give him a chance to decide if this is an agreeable contract before moving forward.

Chairperson Buerk stated that he would contact Mr. Staniforth to determine whether the elimination of the cost of living increase was acceptable to him. If that was the case, a revised contract would be sent to the Board.

VII. PUBLIC COMMENT

PRODUCTIVITY COMMISSION

Dr. Waddell reported on the Productivity Commission's last meeting, which focused on the role of Commissioners when visiting department heads. Some guidelines were presented on how they should operate, specifically questions, topics and issues that should be brought up. Mr. Waddell explained the County-wide Marketing Presentation. Based on a Productivity Investment Fund Loan, the Department of Beaches and Harbors was given the opportunity to take on the County-wide Marketing Function. This means that when other departments have an opportunity to sell their services to the public and they need some stronger expertise in the marketing area, they call upon the Beaches and Harbors to help publicize that effort. The Beaches and Harbors has more experience than other departments in marketing their services. An example of this are the waste baskets at the Beach, on which a radio station advertises. They collect revenue from that advertisement.

Mr. Waddell also reported on the new name of the commission which is the Productivity and Quality Commission.

p>**VIII. ADJOURNMENT**

The meeting was adjourned at 12:25p.m. with the agreement of the Commission.

Respectfully Submitted,

Bruce J. Staniforth
Executive Director

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