
Economy & Efficiency Commission Meeting Minutes

MINUTES OF THE REGULAR MEETING ECONOMY AND EFFICIENCY COMMISSION

WEDNESDAY, JULY 6, 1994
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 at 9:50 a.m.

II. ATTENDANCE

COMMISSIONERS PRESENT

Fred Balderrama (late arrival)
Gunther Buerk
Richard Barger
John FitzRandolph
Louise Frankel
Jonathan Fuhrman
Chun Lee (late arrival)
Roman Padilla (late arrival)
Dan Shapiro
Tony Tortorice
Betty Trotter
Albert Vera

COMMISSIONERS EXCUSED

David Farrar
John Grande
Carole Ojeda-Kimbrough
Robert Philibosian
Randy Stockwell
Julia Sylva

Others present:

Jaclyn Tilley Hill. 1993-94 Grand Jury Foreperson

Moved. Seconded and Approved: The Commission members noted above be excused.

III. CONSIDERATION OF MINUTES

Chairperson Buerk asked for any amendments, corrections or objections to the proposed Minutes from the June 1, 1994 Commission meeting.

Commissioner Fuhrman asked that his comments on page 5 be clarified to reflect that the Auditor- Controllers report indicated that the County Counsel's office was lacking, rather than the Audit report.

Moved, Seconded and Approved: The Minutes of the June 1, 1994 Commission Meeting be approved as amended.

IV. INTRODUCTIONS AND ANNOUNCEMENTS

Newly appointed Commissioner Albert M. Vera and the 1993-94 Grand Jury Foreperson Jaclyn Tilley Hill being appointed to the Commission were introduced and asked to relate some background information about themselves.

Chairperson Buerk announced that the Pension Study has been recognized by an award from the National Association of Counties which will be given at the national conference in Las Vegas this month. Hopefully, the Chairperson of the Board of Supervisors will be able to accept the award for us at the conference. If not, the award will be forwarded to the County for presentation.

V. OLD BUSINESS

A. Jury System Management

Task Force Chairperson Trotter reported that the Jury System Management draft report should be available for review in the near future, even though Mr. Kaufmann's illness has caused some delay. Aspects of jury service were discussed.

B. Real Property Management.

Task Force Chairperson Shapiro reported that the Task Force has received the property inventory from the CAO's office and has met with Les Detweiler and Klaus Marx of the real estate leasing section. They advised that the County was able to get a lease with City Corp. Plaza for new offices for the District Attorney. This lease was obtained for 80 or 90 cents per square foot. It included a contribution of all the office furniture in the space. Notwithstanding the fact that it is an economical leasing arrangement, they may have to deal with the public relations issue of occupying space of this quality.

This lease is an example of how the County may achieve significant savings with short-term lease renewal negotiations. This achievement has made the County aware of the savings possible with similar leasing arrangements.

Commissioner Barger urged that this issue be discussed with the Supervisors when the Commissioner meet with them so as to gain their support for the leasing processes recommended to the CAO's staff by the task force.

Chairperson Buerk reported that meetings have been arranged with three of the five Supervisors. Real Assets Management is a topic that is to be discussed at these meetings. Various County uses and their potential for affecting these kinds of savings were discussed. It was recognized that certain facilities, e.g., jails, et cetera, cannot be handled in this manner.

Commissioner Frankel asked a question concerning the vacancy factor for County-owned buildings. Commissioner Shapiro responded that this is the information being developed. He also reported on the method of allocation of costs of maintenance of County facilities. It appears that in some cases it may be cheaper to close a facility and lease rather than to incur the costs of maintenance. He stated that a comprehensive analysis is advisable to ascertain the appropriate manner of handling the various operations and facilities space needs.

Commissioner Frankel commented that another factor to be taken into account is public accessibility to governmental offices. This is a reason for grouping government offices in a central location.

Chairperson Buerk asked if it appears that a meeting with the CAO would be useful at this point. Commissioner Shapiro replied that it would be better to wait until we have hard information on one renegotiated lease which can demonstrate available alternatives.

C. Liability and Risk Management

Task Force Chairperson Lee reported that ARMTech has taken over the consulting work for the final phase of the project. They have prepared a time schedule which was just received. ARMTech plans to report to the Task Force by July 25.

Mr. Staniforth advised that he had spoken with the ARMTech representatives on the telephone and made sure that they have received the necessary documentation. Once they have reviewed the documents, they can report to the task force how well the Commission recommendations have been implemented. He advised that July 25 may be a bit optimistic.

Commissioner Fuhrman asked if a copy of the report could be made available prior to it coming to the Commission. Commissioner Lee invited him to attend the Task Force meetings if he wished to review the information in advance.

Chairperson Buerk cautioned that if any drafts of reports are sent out to more than one-half of the Commissioners, the draft becomes a public document according to guidelines from County Counsel. It is not prudent to make an early draft a public document. He observed that the task force system has worked well and the Commission should continue in this manner.

It was the consensus of the Commission that if a Commissioner is interested in a task force draft report, the Commissioner should make that interest known to the task force chairperson who will ascertain the status of the distribution under the present guidelines. A Commissioner should also attend the task force meeting if the Commissioner has an interest or wishes to make a contribution.

D. Productivity Commission.

Liaison to the Productivity Commission Trotter reported that she attended the last meeting and the major topic was "reinventing government." She reported that one speaker advised that, in general, only 30 percent of Commissions, Task Forces and Committees recommendations are ever given serious consideration

Commissioner Trotter also called attention to the letter from the Chairperson of the Productivity Commission congratulating the Economy and Efficiency Commission on winning the Western Governmental Research Association's Harry Scoville Practitioner Research Project Competition Award.

E. Unincorporated Areas Budgeting.

Task Force Chairperson Padilla reported that a task force meeting is scheduled for July 13, 1994. He has also met with Mr. Staniforth twice and with Jim Colangelo of LAFCO. At a meeting with Mr. Staniforth on Tuesday, July 5th they reviewed the current format of the report under development. He advised that there are land use planning issues surfacing that were not foreseen before the study was undertaken.

Chairperson Buerk asked how close the project is to reaching conclusion. Commissioner Padilla responded that considering the current Commission priorities, a draft report should be ready within six weeks. Mr. Staniforth added that some of the tasks that URS was to have done, now have to be done in-house and this takes additional time. In addition, the new project assigned by the Board regarding Health Services and the Risk Management project have priority in commitment of time.

Chairperson Buerk expressed the Commission's disappointment with the assistance received from URS and suggested that some outside help be obtained to overcome the problems this has created, without additional burden on Mr. Staniforth

Commissioner Vera requested information on the task force structure. In response to this request Chairperson Buerk explained the structure of the Commission Task Force system.

At this point Chairperson Buerk called for a five minute recess.

VI. PRESENTATION

The Commission reconvened and Mr. Staniforth introduced Mr. Dick Poladian the speaker for the day. Mr. Poladian is Office Managing Partner, Arthur Andersen & Co. and former member of the Asset Management Sub-committee. Mr. Poladian's topic was: "Recommendations of the Mayor's Advisory Committee on Fiscal Administration."

Mr. Poladian stated the composition and objectives of the Mayor's Committee. The Mayor's Committee was asked to take a fresh look at the City's fiscal administration, make multi-year projections and come up with suggestions and recommendations for addressing some of the problems they may examine.

The Committee's general findings and conclusions included:

- Substantial deficits, rising to as high as \$700 million over the next few years.
- Examining a number of opportunities to enhance revenues and reduce costs.
- Looking at the City's assets and treating the citizens as "shareholders" entitled to a return on the assets.
- The City employees they dealt with were bright, articulate, insightful, and not surprised by suggestions made by the Committee.
- Delegation or empowerment of employees to take the initiative and do something when they identify an opportunity for improvement.
- Any preconceived notions of slothfulness on the part of city employees quickly went away after they dealt with them
- There was a spirit of cooperation which was set by Keith Comrie, the City Administrative Officer.

There were few guiding principals set by the Mayor. The primary parameter was to not present any proposals that would result in an increase in taxes.

The tasks of the Committee were divided up into discrete areas. Some of those areas were:

Department of Water and Power (DWP) Under-performing assets. a \$6 billion asset base was producing about \$100 million per year to the City. The Committee benchmarked DWP against Southern California Edison Company and 57 other utilities and believes there are opportunities to improve by \$100 million per year.

Real Estate Management. There are many expired leases which provides the City with an opportunity to renegotiate them in a very favorable real estate market.

Streets. The City has 6,500 miles of streets, of which 111 are "dead" and in need of rebuilding. With proper maintenance streets can last, but at this time, only 65 miles of the 6,500 miles of streets are being maintained annually. The cost of rebuilding "dead" streets is 60 times what it costs to maintain them. This is an example of what can result when dollars are cut without changes in processes.

Tree Trimming. When trees are trimmed once every eight years instead of once every four years they begin to decline beyond the ability of the City to repair them.

Fees for Managing the Pension Fund. The City has been bearing the costs of fund management on one of its funds. This cost, about \$25 million per year, is usually borne by the pension plan.

Accounts Receivable. Accounts Receivable were growing at a substantial rate, due to unpaid charges for ambulance and emergency services, unpaid parking tickets, dog licenses, etc.

Waste/Refuse Collection. There is little standardization of equipment, resulting in large costs for equipment maintenance and repair. This happens, in part, as a result of the bidding procedures required by the City. Standardization can resolve this in the field of waste collection and in other areas which have the same kind of vehicle requirements.

Pension. DWP has been computing its fund requirements based on cost of assets in the plan instead of the fair market value of current assets

This City was computing the current balance using the cost of the securities. This was significantly less than the current market value. Ignoring the appreciation within the fund resulted in contributing about \$75 million per year more into the plan than was necessary.

Mr. Poladian then responded to questions from the Commissioners, explaining some of the methodology used by the Committee. Specifically, he detailed the experience he had with DWP. Rate comparisons were being made between DWP and Southern California Edison (SCE). He pointed out the differences between DWP and SCE. SCE is a private, investor owned, PUC regulated company. SCE pays taxes and cannot float tax-exempt debt. Based upon these considerations their rates should be higher than DWP. Making an "apples to apples" comparison by factoring in the cost of debt and taxes, etc., he said three elements were revealed.

First, in the residential service area, the DWP was still cheaper than SCE. The reason for this is the State of California forces SCE to purchase energy from alternative power generation, e.g., co-generation plants at the highest cost of generation. If these power contracts were to be taken out of the equation, SCE would be cheaper than DWP in the residential area.

Second, in its industrial rate design SCE recognizes the market forces and works to avoid the loss of a major customer. DWP does not seem to recognize these options. This may be one reason that firms consider leaving the area. This can

also result in the development of excessive unused power generation capacity. The Committee believed that DWP needs to take a hard look at their industrial rate design. The DWP distribution costs were higher and the number of days in receivables were more than double that of SCE. If receivables were the same as SCE, it would free up \$80 million in one-time cash and an on-going increase in revenues of \$2 to 3 million per year.

Third, the DWP General and Administrative costs (G&A) were higher. The Committee bench-marked DWP against SCE and 57 other utilities across the country. If second quartile data was applied to DWP G&A, distribution costs and receivables, it would result in a \$118 million per year savings.

After the Committee had studied the DWP, they engaged Price Waterhouse to do a study. The Price Waterhouse study came up with very similar conclusions. In addition, Berrington Wellsely did a detailed management audit and identified potential for \$200 million per year in savings.

Mr. Poladian stated that the political "lightening rods" resulting from the Committee study included the following:

All City Departments need the leadership of a Chief Executive Officer. The sixteen people comprising the City Council, along with the Mayor, make it difficult, if not impossible, to get the consensus necessary to implement the necessary changes.

The Mayor said that he would like to have the Committee remain active to oversee the implementation of the recommendations and hold the City accountable. The Committee responded that this would require some well thought out parameters.

The Committee proposed that the City undertake multi-year budgeting.

Contracting or out-sourcing is not an "all or nothing" proposition. Waste management is a controversial issue in the City. Designated sections of the City could be served by private contractors, which would result in healthy competition between the City operations and the private contractors.

Chairperson Buerk commented that the E&E Commission is in a similar position with the County to that which the Committee was asked to assume with the City. He cited examples of Commission studies, reports and follow up.

There was a discussion which focused on real property asset management. Comparisons were made between the findings by the Committee in the City and the Commission Task Force findings in the County.

Chairperson Buerk thanked Mr. Poladian for attending the Commission meeting and sharing his experiences with the Commission. Mr. Poladian advised that he would make a copy of the Committee report available to the Commission.

VII. NEW BUSINESS

A. Department of Health Services (DHS) Reengineering Project.

Chairperson Buerk reported that the Board of Supervisors has asked the Commission to perform a study on the Department of Health Services and to look at opportunities for "reengineering" some of the services the department provides. He discussed the past effort toward conducting a management audit of DHS and how this assignment differs.

Commissioner Tortorice read aloud the Board motion instructing the Commission to identify potential areas for "reengineering" in the Department of Health Services and allocating funds for the project. Mr. Staniforth explained how the funds would be derived from the remaining funds in a past year's budget and from the Productivity Investment Fund. He also reported that a full time person from the Auditor- Controller's office will be assigned to the office for the duration of the project.

Chairperson Buerk reported that Supervisor Burke offered a motion which passed that will require the Auditor- Controller and the CAO to estimate the cost to conduct an audit of DHS. He stated that the Commission project should be done before such an audit is completed. The Commission project will focus on opportunities for changes, while an audit may find irregularities that need correction.

B. Management Information Systems Project.

Chairperson Buerk reported that the Executive Committee had discussed this issue and determined that it would be a worthy project. He expressed the opinion that government agencies in general seem to have difficulty in adjusting to the rapid changes in data processing technology. The task force should take this into account and find ways to assist the County in this regard.

Chairperson Buerk asked that Commissioners interested in serving on the two new task forces let him know of their

interest so that he can make the appointments.

Mr. Staniforth recommended that the Commission give the DHS Task Force the authority to approve a work plan prior to the next Commission meeting to assist in meeting the 150 day reporting timeline requested by the Board. It was the consensus of the Commission that work on this project should proceed in a timely manner and that the task force has the authority to approve and submit a board letter covering the proposed work plan.

C. Sales Tax Capture.

Commissioner Vera proposed that the Commission consider a concept wherein County purchases made outside the State of California be made by a licensed "jobber." This process would have the effect of keeping the money that would otherwise be paid in sales taxes, in the county. He also proposed that the Commission consider a procedure that will exempt the County from local sales taxes in the purchase of road equipment funded by road taxes.

Chairperson Buerk suggested that Commissioner Vera, together with any other Commissioner who may wish to volunteer, prepare a more detailed report for consideration at a future Commission meeting. Mr. Staniforth recommended that Commissioner Vera work with the Economy Task Force on these matters. Chairperson Buerk agreed to speak with Task Force Chairperson Philibosian about preparing a recommendation for the next Commission meeting.

VIII. ADJOURNMENT

At 12:25 p.m..

Moved, Seconded and Approved: The meeting be adjourned.

Respectfully Submitted,



Bruce J. Staniforth
Executive Director

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Kenneth Hahn Hall of Administration, Room 163, 500 West Temple St.,
Los Angeles, CA 90012
Phone (213) 974-1491 FAX (213) 620-1437 [EMail eecomm@co.la.ca.us](mailto:eecomm@co.la.ca.us)
WEB eec.co.la.ca.us