THE NEW YORK CITY CRISIS AND LOS ANGELES COUNTY GOVERNMENT: ORGANIZATION, EMPLOYMENT AND COMPENSATION

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Report by the Task Force on Management and Finances
in Los Angeles County

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PREFACE

On October 28, 1975, on motion of Supervisor Hahn, the Board of Supervisors asked the Economy and Efficiency Commission to review the causes of the financial crisis in New York City and make preventative recommendations to safeguard Los Angeles County from a similar disaster.

This is the first in a series of reports, which we plan to submit in response to the Board's request. Future reports in this series will cover the following subjects:

- The structure of local government, intergovernmental relations, and duplication of city and County services;
- Need for and effectiveness of County services;
- The civil service system, including recruitment, selection, promotion, classification, and termination procedures;
- Debt planning and control;
- County compensation practices, including prevailing wage determination, fringe benefits, wage formulas and salary schedules, incentives and performance criteria;
- The County agency structure.

In this report we propose changes to improve the County's control of employment, compensation, and organization.

In the mid-1960's public awareness of the condition of metropolitan populations, particularly the urban poor, increased dramatically. Since that time, all sectors of the economy have been escalating efforts to solve the various problems of urban life. An immense variety of Federal and State aid in the form of programs and funds has flowed to local governments, along with the mandate to solve the problems.

Local governments were not prepared structurally or operationally to deal with intensified urban problems or to utilize the new resources effectively and efficiently. The overall result of local, Federal and State efforts to solve the urban crisis has been a new urban crisis - the fiscal crisis. So far, city governments have been the major victims. New York City is the prime example. Buffalo, Detroit, and Seattle have also been operating on the brink of fiscal disaster in recent years.

In January we filed a progress report comparing the situation in Los Angeles to that in New York. While the crisis in New York was precipitated by the refusal of financial institutions to refinance the city's debt, the basic cause was that expenditures for a number of years had been outrunning revenues. The structure of Los Angeles County government, its manner of operation, and the legal requirements under which it operates differ in significant respects from those in New York. Therefore, a detailed analysis of the structural and operating problems in New York City would contribute little to recommendations designed to prevent a similar crisis in Los Angeles. Nevertheless, Los Angeles shares with New York City and other local governments many of the external and internal conditions that led to the crisis in New York.

To avoid a similar crisis the Board of Supervisors has taken action to increase revenues from Federal and State sources and to initiate tax reforms. While these efforts should be pursued, they deal with only one side of the fiscal equation. They may increase revenues, but they do nothing to control expenditures. In the absence of effective control, Los Angeles County is facing a financial crisis. The basic cause is the same as that which led to the crisis in New York. Expenditures are threatening to outrun revenues.

The County therefore must take every possible action to improve its own management and control systems. It is in this area, where the Board can take unilateral action, that it has the greatest opportunity to reverse the trends of the past ten years and avert a fiscal crisis. This report proposes such action.

I. FINDINGS AND RECOMMENDATIONS

Our study leads to one conclusion. Los Angeles County government is moving rapidly toward a serious fiscal crisis.

Between 1965 and 1975 total County costs grew by 187% from $940 million to $2.7 billion. During the same period locally financed County costs - excluding expenditures financed by the Federal and State governments but including local costs of health and welfare - grew by 160% from $459 million to $1.2 billion. The Board of Supervisors has attempted to stabilize this growth since 1971, with substantial success in 1972 and 1973 when the growth of locally financed costs was kept to 5%. However, local costs are again rising rapidly - by 7.6% in 1974 and by nearly 17% in 1975.

Briefly summarized, the facts are these:

- Between 1965 and 1975 the number of full time employees in the County increased by 64% from 44,216 to 72,735. In the last year the County hired an additional 3,700 employees, bringing total full time employment to 76,435. This excludes approximately 10,000 part time employees, student workers employees in training programs and employees funded by government manpower programs. The increase - 32,000 - is greater than the total work force in any city in the United States, except New York, Chicago, Los Angeles, and Philadelphia. In March, 1976, the Board of Supervisors declared a hiring freeze. As a result, the number of employees is now beginning to decline.

- Some departments have doubled or tripled in employees and expenditures; others have grown at more moderate rates. It is difficult to establish a relationship between these trends and the intensification of community problems in such areas as welfare, public health, crime, congestion, and pollution or to a related demand for services. Some of the fastest growth has occurred in internal management and support functions not directly related to demand.

- According to the available information, the costs of many County departments since 1965 have increased in excess of workloads and inflation, indicating a decline in departmental productivity. However, productivity appears to have improved in some departments which have utilized the Chief Administrative Officer's work measurement program. In addition, the CAO and the Auditor-Controller are implementing programs to improve control over productivity.
- Between 1965 and 1975 the annual cost of salaries and fringe benefits increased by $810 million. This cost grew at an annual rate of 13.0%. Part of this increase was due to the addition 6f 32,000 employees. The remainder - approximately $7100 per employee over the ten-year period - was due to increase of salaries and benefits. This cost grew at an annual rate of 7.1%.
- Last year the County granted an average salary increase of 7% which raised annual costs by $97 million. Some employees, of course, received more than the average, some less. In addition to direct salary increases, all employees received the equivalent of a 4% salary increase in improved fringe benefits. Approximately 2.3% of this increase was due to agreements negotiated in prior years or to new legal requirements. Thus the average total increase for all employees was 11%.
- Since 1965 the ratio of supervisory employees to non-supervisory employees has doubled in many County departments and tripled in some. This means that in these departments the County is using and paying for at least twice as much supervision per employee as it was in 1965.

In our progress report in January, 1976, we pointed out that there are many causes, both external and internal, for the increasing costs of County government. The County is not entirely in control of all these causes. For example, the County is obligated to respond to shifts in the demand for services that result from population migration and fluctuations in the economy. Further, the actions of Federal and State governments influence the number of employees necessary to implement their programs and therefore create a need for additional housing and services to support them. The Board of Supervisors does not control such factors, although it recently has been taking vigorous action to reduce their impact on County finances by pressing for increased revenues and tax reform.

However, action to increase revenues from Federal and State sources and efforts to shift the tax burden, while essential, are not sufficient to solve the County's long-range problems. Revenue is only one facet of the County's fiscal health. Control of expenditures is equally important.

Those cities like New York, who now face fiscal disaster, are learning this lesson through very real and painful experience - perhaps too late. New York City has scheduled budget cuts of $200 million this year - primarily through work force reductions of 40,000 or more. It still must cut $1 billion more in the next three years to balance the budget. Detroit has cut its payroll by 4,000, or 18% of the work force, in the past 20 months. Each city department in Detroit has been asked to cut spending by up to 30%. A hiring freeze has been in effect for more than a year, and salaries of the mayor and all top officials have been frozen.

To date, Los Angeles County has not had to resort to such drastic measures, although recent actions by the Board of Supervisors demonstrate its recognition of expenditure control problems. In the past year it has instituted a County-wide budget cut of 3½%, a hiring freeze travel and overtime restrictions, and a delay of capital projects valued at $11 million.

Such measures, however, are at best temporary solutions which do not correct the deficiencies in the system which generated the problems. What is needed is basic organizational reform. Without such reform, the County's chances

of bringing expenditures under control are slight. Effective expenditure control will require certain basic changes in the method of operation of the Board of Supervisors as chief executive of the County. It is in this area, where the Board can take unilateral action, that it has the greatest opportunity to reverse the trends of the past ten years and avert a fiscal crisis.

Clearly, several different means of accomplishing organizational reform could be effective. The Board of Supervisors is currently considering a ballot proposal for the November election establishing an elected County mayor, as recommended by the Public Commission on Los Angeles County Government. At a meeting on February 18 the Economy and Efficiency Commission voted to endorse the principle of an elected chief executive. Another alternative is a strong appointed chief executive. This was proposed by our commission in 1970 but was rejected by the voters. It is still favored by a number of authorities on County government. A third alternative, advocated by some and supported by our commission, is to restructure the 50 existing County departments into 12 to 14 agencies.

All three of these alternatives would take considerable time to implement, assuming approval of the Board of Supervisors or the electorate. The task force believes that the County must initiate reform immediately to correct major deficiencies in the County's present management system and can do so without jeopardizing other changes in the future.

First, the Board must delegate authority to manage and control certain major County operations to the Chief Administrative Officer and hold him accountable for effective results. Second, it must protect the public against the conflict of interest inherent in current salary setting procedures. Third, it must provide the CAO with the necessary authority to assure effective control of the County's organizational structure.

These actions can be taken within the framework of the present organization and through changes in the Administrative Code. Regardless of what Charter changes may be proposed and approved by the voters in June or November - particularly that regarding establishment ~f<an elected chief executive - we believe it is imperative for the Board to act immediately.

We recommend that the Board take the following actions:

<u>RECOMMENDATION</u> 1.

Delegate to the *Chief Administrative Officer (CAO) the responsibility for direct supervision of the following departments: Building Services, Communications, Data Processing, Facilities, Mechanical, Personnel, and Purchasing. This responsibility will include the authority to appoint and dismiss the heads of these departments, subject to approval of the Board of Supervisors and in conformance with Civil Service requirements.*

One basic change that must be made to bring County expenditures under control is to shift some of the burden now placed on the Board of Supervisors to the CAO (See Exhibits 1 and 2.) The departments we recommend be assigned to the CAO are the general and administrative departments which perform strictly internal and support functions. Their operation is totally within control of the County. The functions performed by the seven departments, including the building program, cost the County $164 million in 1975 - an increase of 181% over the 1965 cost of $58 million. Direction of these departments will make the CAO accountable for control of employment, employee compensation, the County's building program and all other functions directly reated to the number of County employees and the facilities, equipment, and services necessary to support their work. One key to the control of County costs in all areas is to integrate decisions and establish uniform policies in these key administrative functions.

EXHIBIT 1

CURRENT LOS ANGELES COUNTY ORGANIZATION

APRIL 1976

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EXHIBIT 2

PROPOSED LOS ANGELES COUNTY ORGANIZATION

APRIL 1976

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Equally important, compensation decisions should be integrated and closely coordinated with budgetary planning. The CAO, in consultation with the Board of Supervisors and within the legal constraints of the prevailing wage clause, should establish the County's bargaining position and direct the bargaining process. Decisions in these areas have a profound influence on the budget.

We should emphasize that our recommendation means that the heads of the above departments will report strictly to the CAO and take their orders from him. They will no longer report to a committee of the Board of Supervisors or to a single member of the Board. The Board of Supervisors, therefore, will deal with the Chief Administrative Officer and hold him or her accountable for any activities involving these departments.

We have stated that these changes can be made within the framework of the Administrative Code and do not require Charter amendments. We should note that the CAO's authority must conform to applicable provisions of the Charter and State law. County Counsel advises us that the County Charter reserves to the Board of Supervisors the discretionary authority to appoint all County officers. Thus, legally the authority delegated to the CAO is to recommend appointment and dismissal for final action by the Board. In addition, the State Constitution and Statutes and the County Charter place certain restrictions on the Board's supervisory authority over some of the departments affected by our recommendation. These same restrictions would apply to the authority delegated to the CAO.

The change we recommend will relieve the Board of the responsibility to monitor and coordinate the detailed operations of the service and support departments. It can then concentrate on County policy, on the allocation of resources, and on the supervision and evaluation of County services provided directly to the public. Under our proposal, such functions as health, welfare,

probation and others similarly responsible for community programs will remain under the direct supervision of the Board. In the future, depending upon experience with the

CAO's management of internal support services, the Board may find it advisable to delegate management of other departments to the CAO. Before making this decision, the Board should evaluate the effectiveness of the limited delegation we recommend.

RECOMMENDATION 2.

Establish by ordinance a Compensation Review Committee with responsibility for reviewing annually the County's compensation recommendations. The committee should be required to certify to the Board each year that the County's compensation plan is consistent with reasonable standards of personnel practice.

The County managers responsible for bargaining and for proposing salary increases have a clear conflict of interest. Supervisor Hahn emphasized this point at a Board meeting on February 10, when he observed that the managers themselves "are involved and will benefit from the recommendations."

Because of the uniform system of fringe benefits, County managers receive the same increases they agree to in the bargaining process. In addition, higher salaries granted at the lower levels tend to push up their own salaries. They have a further conflict of interest because they are also involved in recommending managerial salary increases to the Board of Supervisors, including their own.

In 1968, on recommendation of the Economy and Efficiency Commission, the Board of Supervisors established an Executive Salary Review Committee to advise it on compensation practices and to act as a check on conflict of interest. It was patterned after similar committees used by major corporations. It functioned for two years but has been inactive since 1971.

A similar committee with broader responsibilities should be established. It should be activated by a Board ordinance prescribing in detail its responsibilities, principles of operation, and qualifications of members. Its principal responsibility should be to examine salaries, pay practices, fringe benefits, severance pay, and such special compensation features as assignment of County cars and expense accounts. The committee should be required to certify to the Board each year that the County's compensation plan is consistent with reasonable standards of personnel practice.

The committee should consist of five members appointed by the Board of Supervisors. Two of the members should be the Chief Administrative Officer and the Auditor-Controller. Three should be public members recommended to the Board by the Economy and Efficiency Commission.

The Chief Administrative Officer, as the County official with final accountability for the salary recommendations, should provide the committee with the rationale behind the County decisions as well as have a voice in the committee's deliberations. The Auditor-Controller, as the official responsible for financial information, should provide the committee with the data it needs and assure its validity.

The three public members, since they constitute a majority, will assure that the committee acts with appropriate independence and in the public interest. We believe the Economy and Efficiency Commission is the appropriate agency to seek out and recommend to the Board of Supervisors public members best qualified to serve on the Salary Review Committee. According to the ordinance governing the Economy and Efficiency Commission, the principal duty of our commission is to "examine any operation of County government and submit recommendations to the Board directed toward improving government economy, efficiency, and effectiveness."

The qualifications of the members should be clearly delineated in the ordinance. As a minimum, the public members should be knowledgeable in local government, salary and personnel administration, or associated research fields. They should not include any individual who would be in a position to benefit directly or indirectly from service on the committee.

We believe it is extremely important for effective administration of compensation in the County to provide this type of independent advice to the Board of Supervisors. It is equally important to maintain a strong surveillance function involving public participation to neutralize any possible conflict of interest.

RECOMMENDATION 3.

Delegate to the Chief Administrative Officer formal authority for organizational planning, development, and control. Require the CAO to report annually on the findings and recommendations resulting from this effort and their impact on costs.

The chief purpose of this function will be to analyze the County's organizational structure and propose changes that will improve the management system. In addition to evaluating the effects of proposals to create new County departments or consolidate existing ones, the CAO will establish standards of organizational structure and monitor the performance of County departments relative to these standards.

A continuous, high level organizational planning function, with requisite control authority, is badly needed in the County. As we have pointed out, the ratio of supervisors to subordinates has doubled in many County departments and tripled in some. In addition, despite several consolidations, over 50 separate departments report directly to the Board of Supervisors, a span of control which violates all acceptable principles of organization. Usually a span of control of this size means that all too often the problems needing

discussion and resolution never reach the decision and action level until they have developed into full blown crises.

Correcting these kinds of conditions will require decisions which may be highly controversial. To be effective the CAO will require specific legal authority and the full backing of the Board of Supervisors. This authority, therefore, should be explicitly prescribed in the Administrative Code.

In the constantly changing political and economic environment to which County government must respond, only continuous organization planning and evaluation can bring the organization under control. Without such an effort, well conceived management methods such as program budgeting, industrial engineering, management by objectives and productivity bargaining lose much of their effectiveness. This type of formal organization planning - pioneered by the Standard Oil Company 40 years ago - is now a standard operation in almost all large companies. The County can no longer afford the kind of haphazard organizational development which has characterized its past operation.

The remainder of this report contains further information supporting our recommendations.

II. COST TRENDS

This chapter describes major trends in the cost of Los Angeles County government.

We have selected the 10 year period between 1965 and 1975 because 1965 marks the era of increased local government effort to solve local problems. We have focused on expenditures for two reasons. First, they measure the actual effort spent and allocated to local functions and are thus preferable to budgets which represent only planned effort and allocations. Second, we are convinced that the record of expenditures provides the major indicator of the new fiscal crisis.

A. <u>Total Expenditures</u>

The record of total expenditures from all County government sources is shown in Table 1, on the following page. Between 1965 and 1975, total County expenditures grew by 187%. Over the decade, the average annual growth rate was 11%. After several years of extremely rapid growth - on the order of 20% per year - the rate of increase declined to a low of 5.3% in 1973. Subsequently it has increased again, and indications this year are that it will exceed 10%. The 1976 budget called for total expenditures of $3.1 billion This budget, if realized, will represent an annual expenditure growth rate of 14.6% over 1975.

Total expenditures are not sufficient as an indicator of the County government's fiscal health. Annual expenditures include, for example, the amounts of money disbursed in aid for individuals and families on relief, the amounts spent to provide police and other municipal services to contract cities, and the amounts spent to provide services in special taxation districts. That is, they are inflated by revenues from other governments. For example, State

TABLE 1

History of County Government Expenditures

1965 - 1975

Year	Expenditure	Growth Rate (%)

(Fiscal Year)	($ Thousands)	Annual	Cumulative
1965	040,047	-	-
1966	1,006,730	7.1	7.1
1967	1,100,570	9.3	17.1
1968	1,239,950	12.7	31.9
1969	1,505,836	21.4	60.2
1970	1,815,133	20.5	93.1
1971	2,073,950	14.3	121
1972	2,230,663	7.6	137
1973	2,349,377	5.3	150
1974	2,514,764	7.0	167
1975	2,703,038	7.5	187

Source: County of Los Angeles, Annual Report of the Board of Supervisors, 1965 - 1975

and Federal aid of $1.1 billion accounted for 40% of the 1975 expenditure. Charges for services, such as charges to contract cities, accounted for $313 million, or 12% of the total expenditures. Such funds, although managed partly by the County, are directly controlled by other levels of government. It is necessary to keep this distinction in mind when considering County expenditure growth.

B. Locally Financed Expenditures

Table 2 contains the history of County expenditures excluding these transfer funds. The expenditures reflect the cost of County operations financed locally and primarily controlled by decisions of the Board of Supervisors. The cumulative growth of 160% corresponds to an average annual increase of 10%.

Like total expenditures, net expenditures are on the rise again. In fiscal year 1975, the moderate rates of the early seventies were erased by a single year jump of 16.9%. The budget for fiscal year 1976 -$1.4 billion - if realized, will result in a one year increase of 20% and push the cumulative growth to 205% from 1965.

The Board of Supervisors is directly accountable to the local taxpayers for these funds. The question then is: Does the County's current management structure insure effective and efficient use of these funds to resolve local problems? Subsequent chapters address various aspects of this question.

TABLE 2

History of Net County Expenditures

1965 - 1975

Year	Net Expenditure	Growth Rate (%)

(Fiscal Year)	($ Thousands)	Annual	Cumulative
1965	459,207	-	-
1966	481,012	4.7	4.7
1967	550,225	14.4	19.8
1968	614,600	11.7	33.8
1969	673,491	9.6	46.7
1970	751,297	11.6	63.6
1971	902,351	20.1	96.5
1972	936,670	3.8	104
1973	948,283	1.2	106
1974	1,020,088	7.6	122
1975	1,192,205	16.9	160

Source: County of Los Angeles, Annual Report of the Board of Supervisors, 1965 - 1975

III. SOURCES OF COST

In this chapter we present information describing the County's allocation of money to major functions and analyze expenditure growth in relation to priorities, demand for services and productivity. If the County1s management system is operating efficiently, then we would expect the growth of expenditures to be accompanied by shifts in priorities, by increased demand, or by improved productivity. If on the other hand, neither new priorities, demand, nor productivity are sufficient to explain cost increases, then it is likely that the management system is operating poorly.

We should note that the indicators we have used are those readily available from official government documents. They are aggregates and in general fairly crude. Hence the analysis in this chapter represents only a beginning of the kind of research necessary to isolate the basic causes of cost increase.

A. Priorities

Table 3 contains the history of expenditures of major County Departments, grouped according to function. The table includes only funds managed by the Board of Supervisors. It excludes Federal, State, and contract city expenditures, but includes special districts governed by the Board.

The information in the table reflects the system of priorities which the Board of Supervisors has adopted in allocating County funds. As the table indicates both in 1965 and 1975 the County allocated local resources primarily to social services, public protection, and general government. In 1975, for example, the cost of social services amounted to $494 million, or 37% of locally financed expenditures. Public protection amounted to $315 million, or 24%. General government amounted to $379 million, or 28%.

TABLE 3

HISTORY OF NET COUNTY EXPENDITURES - MAJOR FUNCTIONS

1965 - 1975

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TABLE 3 (Continued)

HISTORY OF NET COUNTY EXPENDITURES - MAJOR FUNCTIONS

1965 - 1975

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Except for a moderate increase from 83% to 88% of the total, the relative emphasis placed on these functions by the County has not changed significantly since 1965.

Thus, there is no evidence that the County has shifted priorities to such new areas of contemporary concern as environmental management, recreational opportunities, congestion, and crime. Moreover, it is difficult to explain why there has been substantially less growth in functions like air pollution control and fire protection than in strictly internal areas. The growth rates of these latter functions are among the fastest in the County.

B. Demand for County Services

Measuring the demand for local government services is a complex undertaking with few really dependable indicators available. Refined indicators are badly needed, but more research is necessary to develop and apply them. In the meantime, we have selected indicators which are published routinely and are often used to explain cost increases.

County population is often used as a measure of the demand for certain services. According to this measure, aggregate demand for County services has changed little in the last decade. The population of the County was 6.8 million in 1965, and increased to 7.0 million in 1975. This increase, less than 3%, is hardly sufficient to explain increases of 160% in the locally financed cost of County government.

Certain key economic indicators are perhaps more relevant. Table 4 contains employment, unemployment, and housing statistics for the years 1970 - 1975. In 1971 and 1975, unemployment and the unemployment rate increased substantially. These were also years of significant County growth. However, in 1972 and 1973, when the unemployment statistics declined substantially, net

TABLE 4

ECONOMIC INDICATORS AND COUNTY EXPENDITURES

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County expenditures continued to increase at a moderate rate. There is no clear, consistent relationship between unemployment and growth of County government costs. There may be, of course, a relationship over intervals of time which allow for governmental response, but more sophisticated research is needed to reveal it.

Similarly, comparison of housing development trends to net County expenditure growth reveals no consistent pattern.

Nevertheless, the demand for County government services has changed significantly over the last decade. The principal source appears to be demographic change, such as local migration of the population and its changing composition. Significant migration to outlying areas of Los Angeles County took place during the 1965 - 1975 period. Table 5 shows selected areas in the County which have declined in population and areas which have increased. Table 5 accounts for about 38% of the population.

The table indicates migration away from the central, older parts of the County to outlying, more recently developed areas. The migration has two effects. First, it creates new demand for County services in the newly developed areas. Therefore, increased expenditures for such development-related services as Flood Control, other public works and fire protection can reasonably be expected. Table 3 shows that the average annual cost increase in these services was between 5% and 10%.

Second, outward migration changes the composition of the population and the economic base in the central areas, usually resulting in a relocation or intensification of demand in those areas. According to the best available information, the population in areas of declining population is generally older and contains a higher proportion of people in minority and low income groups than the population in areas of new development. The migratory

TABLE 5

AREAS WITH DECLINING POPULATION

1965 - 1975

Area	Population 1965	Population 1975	Percent Decline
Adams	465,363	454,304	2.38
Compton	184,961	160,069	13.5
Central	88,805	83,102	6.42
Long Beach	453,629	415,387	8.43
Southeast	463,978	420,976	9.27
Wilshire	173,890	167,006	3.96
TOTAL	1,830,626	1,700,844	7.09

AREAS WITH INCREASING POPULATION

1965 - 1975

Area	Population 1965	Population 1975	Percent Increase
Calabasas	7,143	27,898	290
Chatsworth-West Valley	145,061	187,773	29.0
Malibu	9,730	15,478	59.1
North County	101,562	151,144	48.8
San Fernando	188,427	218,235	15.8
Encino-Central Valley	337,443	376,232	11.5
TOTAL	789,366	976,760	23.7

Source: Los Angeles County Regional Planning Department population comprises the younger, affluent sector of the community. Concentration of the poor and e1derly in the central areas explains at least part of the cost increase in social services, such as health and welfare, which averaged more than 12% annually.

Thus, demand resulting from migration partly explains the growth of County expenditures. The County responded to new demand in outlying areas by providing services there. It responded to intensified demand in inner areas by increasing its capability to provide services to the communities in need of them.

Specifically, the County reacted to these population changes by increasing staff and providing new decentralized facilities. Since 1965 it has hired 32,000 full time employees. To house the employees and provide services in local communities, the County has built 8 new administrative facilities, 23 welfare centers, 13 courthouses, 12 detention or law enforcement buildings, and 20 cultural or recreational facilities.

To summarize our findings to this point: In the previous section we concluded that shifts in priorities were not sufficient to cause the increases in County cost In this section, we have shown that aggregate measures of demand such as population levels, unemployment, and housing development are also inadequate to explain the constant upward trend of these costs. On the other hand, there is reason to believe that the cost increases reflect to some degree the County's response to migration of population and its changing composition.

The information we have presented does not reveal the extent to which migration or other demand factors explain the cost increases. The impact of these factors should be reflected by a corresponding increase in workload. That is, if demand justifies cost increases, we would expect costs and workloads

to increase in proportion to one another. If, on the other hand, allowing for inflation, costs escalate more rapidly than workload, then causal factors such as declining productivity or diminished efficiency are very likely involved.

For example, one would expect that the increased proportion of low income people left in the inner city would create an increased workload for the Department of Public Social Services. If costs increase closely in proportion to workload, then we can conclude that departmental management has maintained a stable level of productivity. If costs have increased faster than workloads, then it appears that the department has allowed productivity to decrease.

C. Productivity of County Services

It is extremely difficult to establish appropriate measures of productivity of County services, because so little relevant information is available. At present, the CAO and the Auditor-Controller are making substantial progress in developing systems to produce improved information. Until these systems become fully operational, the best information comes from measures of the level of effort of County departments, published with County budget proposals.

In particular, two items of information have been available in published County documents since the early years. They are:

- Department expenditures
- Department workload measures.

Combined, these measures provide an indicator of what the trend has been in the productivity of major County departments. Using them, we have computed the amount of departmental expense per unit of workload. The workload measure may be viewed as a major component of departmental output, and the unit cost as a measure of productivity or efficiency. Table 6 contains this data. The effect of inflation has been removed.

TABLE 6

UNIT EXPENDITURES OF MAJOR COUNTY DEPARTMENTS

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As we stated at the beginning of this chapter, the productivity measures are aggregates and should be used cautiously. For example, the data overestimates unit expenditures because all departmental expenditures have been allocated to a single measure of departmental output. This allocation is the best possible at present because of the absence of a program and goal structure. It is unfair in the sense that the departments may be involved in work that is only marginally related to their major function as perceived by the public. It may also be unfair in the sense that it ignores the effect of cost increases due to technological advances, to improvements in the quality or effectiveness of service, and to decentralization of services and facilities to improve their accessibility. Nevertheless, it reflects departmental productivity in the sense that the output or work measures used are indicators of what the public generally thinks it is buying from each of the departments.

The major inference to be drawn from Table 6 is that according to the best available indicators the predominant trend in County government has been a decline in departmental productivity. With some notable exceptions - including the District Attorney, the County Clerk and the Departments of Public Social Services and Probation - department costs have increased in excess of workloads and inflation.

The productivity decline may be justified by new legal and social requirements, such as affirmative action programs, occupational safety and health standards, and collective bargaining. Our conclusion, however, is that other causal factors are also at work and these factors are related to the County's internal management system.

Analysis of these sources of growing County costs and declining productivity is the subject of the next two chapters.

IV. COST CONTROL - EMPLOYMENT, SALARIES, AND BENEFITS

A. <u>Employment</u>

Between 1965 and the present, total County employment increased from 47,000 to 86,000 employees. Exclusive of part time employees, those financed by governmental manpower programs, student workers, and trainees, County 'employment grew by 64% between 1965 and 1975, from 44,216 to 72,735. Table 7 presents the increase of full time employees for major County departments.

These increases in employment during a period of fluctuating demand for services and declining productivity indicate that the County has difficulty in managing its workforce. When workloads increase, the usual recourse is to hire permanent staff. Because of civil service restrictions in the County Charter, the County cannot legally purchase services to level off the fluctuations of peak and valley workloads except under severely limited conditions.

Even in periods of slack demand, civil servants are rarely laid off. Hence, increases in workload result in increases in staff; decreases in workload almost never result in a corresponding decrease in staff. The result is declining productivity. Los Angeles County government, like SQ many of its counterparts, exhibits an almost infinite capacity to expand, and almost no capacity to contract.

The fact is the County has hired 32,000 full time employees since 1965, including 3,700 hired last year. Some of this increase may be attributed to Federal and State policy, some to real changes in demand for services, and some to the need for associated housing and support services. All of these constitute reasonable justification for increased employment. None of them justify the decline in productivity.

TABLE 7

EMPLOYMENT GROWTH

Function	Number of Employees 1965	1975	Percent Change
General Government			
Board of Supervisors	146	192	31
Chief Administrative Office	121	233	93
Financial Services	2,286	2,362	3
County Counsel	111	225	103
Personnel Administration	207	518	150
Support Services	2,522	5,966	136
Registrar-Recorder	453	1,093	141
County Clerk	572	814	42
Total	6,418	11,403	78
Hardware Services			
Flood Control	1,410	1,662	18
Economic Development Services			
Roads	1,762	1,979	12
Planning and Engineering	1,681	1 ,784	6
Total	3,443	3,763	9
Public Protection			
Fire Services	1,712	2,235	30
Sheriff	4,851	6,954	43
Probation	2,774	4,114	48
Marshal	441	650	47
Animal Control	112	136	21
District Attorney	517	1,400	170
Municipal Courts	778	1,118	44
Coroner	86	124	44
Total	11,271	16,731	48
Culture and Recreation	1 ,877	2,933	56
Environmental Protection			
Air Pollution Control District	282	349	24
Social Services			
Health Services	12,794	21 ,281	66
Public Social Services	5,097	12,834	152
Adoptions	360	349	-3
Public Defender	93	549	490
Others	194	587	202
Total	18,538	35,600	92

Source: Employee Population Reports of the Civil Service Commission

Since the available evidence indicates that productivity has been declining, we conclude that what is needed is effective central control of the County's employment program and its attendant support costs. The constant pressure to expand can best be counteracted by integrating all employment decisions with the budgetary process under the Chief Administrative Officer. Only by delegating this authority to the CAO and holding him accountable can the Board expect to achieve a lasting solution to the employment control problem.

B. Salaries and Benefits

Increased costs which cannot be traced to increased employment levels are the result of salary and benefit changes. In 1965, the County spent $339 million on 47,230 employees; in 1975, the cost was $1.1 billion for 80,509 employees. In 1975, the County was spending $810 million more annually than it was in 1965. Last year (for the 1976 fiscal year), the County granted salary and benefit increases which raised annual costs by an additional $97 million.

The annual expense for salaries and benefits per employee increased by $7090, from $7180 to $14,270, between 1965 and 1975 - corresponding to an average annual growth of 7.1%.

One may argue that in a period of unemployment and minimal labor turmoil, the County's compensation practice has been liberal. Over the ten year period the County has been paying a premium over inflation, which averaged 5.1% per year as measured by the Consumer Price Index. However, inflation in the general economy is not necessarily the best index for comparison with salary movement, since it reflects a number of price elements other than the cost of labor. On the basis of the Joint Salary Survey conducted annually by the County and three other public agencies to determine prevailing rates in the community, the County's increases have not been excessive.

We are concerned, however, about the potential effects of a conflict of interest inherent in the present compensation system. As Supervisor Hahn pointed out at a Board meeting on February 10, the County managers responsible for bargaining and for proposing increases 11are involved and will benefit from the recommendations." They benefit from both the pay increases and the fringe improvements they agree to in the bargaining process. Pay increases granted to the unionized employees at lower levels inevitably must force increases at upper levels. Fringe benefits agreed to in union agreements are applied uniformly to all employees. These County managers have a further conflict of interest because they are also involved in recommending managerial salary increases to the Board of Supervisors, including their own.

Last year, the average salary increase for County employees was 7%. Some employees, of course, received more than the average, some less. Table 8 presents the results of salary actions last year for major employee categories. As the table indicates, the average percentage increase was highest for the sample of 130 chief deputies and division chiefs, which includes those directly responsible for the bargaining process. Department heads, on the other hand, whose increases require direct action by the Board of Supervisors, received lower increases on the average, approximately equal to organized, hourly, supervisory and professional employees.

In addition, last year County management granted, and benefited from, substantial improvements of the fringe benefit package. These improvements amounted to the equivalent of an increase of 4%of salaries, approximately 2.3% of which was due to improvements negotiated in prior years. First, the County agreed to assume one-half of the employee's contribution to the retirement system. Second, the County agreed to reduce retirement age requirements by three

TABLE 8

Wage Increases 1975 - 1976

	Average	Average	Number
	Monthly	Percent	of

Group	Salary	Increase	Employees
Department Heads	$3,120	7.4	39*
Chief Deputies & Division Chiefs	2,434	11.4	130
Supervisory and Professional	2,338	7.5	386
Organized and Hourly	952	6.9	26,442
Total Sample	981	6.9	26,997

* Excluded are positions which were vacant, newly created, or newly filled during the year.

Source: Salary Ordinance of the County of Los Angeles, 1975 and 1976
Item Control Report, Auditor-Controller, October, 1974 and October, 1975

Note: Wage data for Department Heads, Chief Deputies, and Division Chiefs is taken from the Auditor's payroll records, which include step increases. Wage data reported for other employees is the published County figure based on the Salary Ordinance, and does not include step increases. The average increase for other employees was 8% or more, assuming that 20% or more of these employees received step advances.

years (i.e., benefits available now at age 52 are equivalent to former benefits at age 55). Third, the County agreed to pay an additional $4 per month per employee for insurance premiums.

These facts raise the question: Has the conflict of interest inherent in the system had an influence on compensation decisions? Perhaps, but the facts are inconclusive. The higher percentage increases for some executives may have been justified for a number of reasons, such as the need to maintain differentials between supervisors and subordinates, the recognition of superior performance, or the need for the County to compete in the labor market.

Nevertheless, it is clear that the County has no adequate mechanism to control potential abuse of the system. While the Board of Supervisors is aware that conflict of interest is present in the system, the Board has no reliable source of information on the extent, if any, of its influence.

The County's compensation practice is a major factor in the growth of County expenditures. In recent years, in particular, while the County's policies may be reasonably consistent with the private sector and other government agencies, the results are difficult to justify in a period of high unemployment and minimal labor turmoil. It seems clear to us that closer control of costs would require more attention to and analysis of the effects of compensation policies. The best control mechanism available to County govern~ent as presently structured is citizen review to evaluate the results of management recommendations, to determine needed improvements, and to certify to the Board of Supervisors each year that the County's compensation plan is consistent with accepted standards of personnel practice.

C. Administration of the Prevailing Wage Clause

Another factor which has a bearing on the County's compensation costs is Section 47 of the County Charter, the prevailing wage clause. It reads as follows:

"In fixing compensation to be paid to persons under the classified civil service, the Board of Supervisors shall, in each instance, provide a salary or wage at least equal to the prevailing salary or wage for the same quality of service rendered to private persons, firms or corporations under similar employment in case such prevailing salary or wage can be ascertained."

In a previous report (Civil Service and Collective Bargaining in Los Angeles County Government, December, 1973) our commission recommended deletion of the prevailing wage clause from the charter, together with other reforms affecting both the civil service and collective bargaining systems. The report stated,

"Our first recommendation broadens the scope of bargaining to that which approximates the private sector. Therefore, if restrictions on the scope of bargaining are removed in such areas as position classifications and workloads - as they will be under our proposal - it is only logical to remove restrictions to the scope of bargaining on wages . No system can be considered to be balanced and equitable if, on the one hand, it gives the unions the right to bargain on an almost unlimited spectrum covering terms and conditions of employment, and on the other hand, restricts management from bargaining freely on wages."

The Board to date has not acted to place the necessary charter amendments effecting these changes on the ballot. We reaffirm our position that such changes would improve control of the County's wage and salary costs.

Nevertheless, as we pointed out in the 1973 report (pp. 39-45), the County is not severely restricted by the prevailing wage clause. It is true that in a number of cases the unions have been successful in bringing suit against the Board of Supervisors for violation of this clause. These cases are

often cited to support the argument that this clause severely handicaps the County in the bargaining process.

The truth is the courts have found almost the opposite. The landmark case in this area was Walker v. the County of Los Angeles (55 C. 2d 626). In a final decision the

Supreme Court found that the prevailing wage clause requires that the Board of Supervisors consider the facts in some reasonable manner and make a finding that the recommended salary rates do in fact satisfy the prevailing wage clause. The courts, the opinion reads, will not interfere with the Board's determination of whether proposed rates of compensation are in accord with generally prevailing rates unless the Board's action "is fraudulent or so palpably unreasonable and arbitrary as to indicate an abuse of discretion as a matter of law."

In an opinion given to the Board of Supervisors in May 1971, the County Counsel advised the Board as follows:

> "Nothing contained in the courts decisions prevents the Board from using <u>any reasonable and appropriate method of ascertaining prevailing wages or from exercising its sound discretion</u> in determining whether a certain method has adequately reflected prevailing wages or salaries."
>
> "The Board may, but is not bound to, consider fringe benefits. If such is taken into consideration the same should be done on a comparative basis with private industry."

Our conclusion is that the prevailing wage clause is not as restrictive as has sometimes been charged. The Board has considerable leeway before negotiations begin to establish the County's bargaining position and to order the County's representatives to bargain on that basis. After the negotiations are completed, and the memoranda of understanding have been signed, the results of these agreements are incorporated in the salary recommendations presented to the Board.

If the prevailing wage clause were repealed, it is unlikely that salary negotiations would change materially from what they are now. Labor and management would continue to collect and use the best available information on private and public sector wages.

Thus, if the County has adopted salary increases which cannot be justified on a reasonable basis, it is very likely not the prevailing wage clause which is at fault. Rather it is because either (1) the Board did not establish an appropriate bargaining position with County management before negotiations began, or (2) County management failed to carry out the Board's instructions. The critical point, therefore, in salary determination for the County is the decision making process which occurs before negotiations begin. It occurs in the executive sessions when the Board meets with County management to discuss prevailing wage data and to adopt the County's bargaining position.

To conclude, in this chapter we have demonstrated the difficulty the County has in controlling employment and compensation. In the case of employment, there is no effective centralized control to counteract continual pressure to expand the work force. In the case of compensation, County management has a conflict of interest. Finally, while deletion of the prevailing wage clause from the charter is desirable, organizational reform to neutralize conflict of interest is much more important for effective control.

The task force therefore recommends that the County centralize control of employment and its attendant costs in the Chief Administrative Office. We further recommend that the County establish a strong public review function to protect against the conflict of interest inherent in the present system.

V. COST CONTROL - ORGANIZATION

The Economy and Efficiency Commission has stated repeated1y that the County has no effective system of organizational control. Currently 50 separate departments report directly to the Board of Supervisors. (See Exhibit 1, page 6.) Not only does this structure place an overwhelming burden of responsibility on the Board of Supervisors -

we know of no parallel in industry - but it is further complicated by a serious imbalance in the relative sizes of the departments. One County department employs over 20,000 people, another approximately 12,000, and two others 5,000. In contrast, eleven departments employ fewer than 100 people. Nevertheless, all report on an equal basis to the Board of Supervisors.

Our commission recognizes that there are basic differences in the operation of a governmental organization and a private business. Nonetheless, it should also be recognized that there are certain principles of management that apply to all organizations, private or public. When an organization becomes as cumbersome and unbalanced as the County, the inevitable result is that all too often problems needing discussion and resolution never reach the decision and action level until they have developed into full blown crises.

The planning and control of organizational development - usually assigned to a central function in private industry - is not performed on a unified and systematic basis by the County. The County has not evaluated consolidation efforts of recent years for their impact on effectiveness and efficiency. The County's basic structure, as reflected by the Board's span of control and the imbalance of departments, has not changed. The County continues to create new departments in response to newly perceived public needs. The result is to increase the already excessive burden on the Board of Supervisors.

In addition, there is no effective control of the internal development of departmental organization structures. The trends in the ratio of supervisory to non-supervisory employees, provided in Table 9, illustrate this point. The evidence shows that the County is using and paying for much more management and supervision in most departments than it was in 1965. The increase of managerial personnel, relative to subordinate personnel, has a direct impact on the cost of County operations.

There may be valid reasons for an increase in supervision. Without systematic organizational analyses based upon appropriate standards, however, it is impossible to determine if the increase is justified. The predominant pattern of increase in Table 9 - with some departments doubling or tripling their use of supervision - is cause for serious concern. Proper analysis would determine whether these increases have been accompanied by corresponding improvements in service to the public or in productivity.

The information in Table 9 is based on the County's Salary Ordinance, the official document of authorized positions published by the County. Since some positions listed in the Ordinance are not filled, the County's actual practice may differ from the data on which the table is based. We are confident, however, that the trends indicated are accurate, since we applied uniform and consistent definitions of supervisory positions for 1965 and 1975 and assumed only that the relationship between the Ordinance and actual practice was the same in both years. As an additional test we computed actual 1975 ratios for a number of departments using County payroll records. We found that the ratios based on the Ordinance are conservative, since vacancies occur more often in non-supervisory categories than in supervisory. Regardless of the differences between the Ordinance and actual practice, it is clear that the trends in the use of supervision should be carefully monitored by County management.

TABLE 9

SUPERVISORY RATIOS

	Supervisory Ratio (%)		
Function	1965	1975	Change (%)
General Government			
Board of Supervisors	3.6	5.4	50
Chief Administrative Office	8.2	16.0	95
Financial Services	4.4	7.9	80

County Counsel	7.0	14.4	106
Personnel	4.1	12.2	198
Support Services	10.0	14.2	42
Registrar-Recorder	10.0	8.0	-20
County Clerk	6.5	12.5	92
<u>Hardware Services</u>			
Flood Control	5.2	17.0	227
<u>Economic Development</u>			
Roads	14.8	23.0	55
Regional Planning	5.8	29.0	400
County Engineer	7.2	19.5	170
<u>Public Protection</u>			
Fire Services	13.5	9.7	-28
Sheriff	8.0	9.9	24
Probation	10.8	20.8	93
Animal Control	1.7	6.3	270
District Attorney	4.8	4.6	-4
Coroner	5.4	6.0	11
<u>Culture and Recreation</u>	4.5	9.2	104
<u>Social Services</u>			
Health Services	6.0	11.3	88
Public Social Services	10.4	17.7	70
Adoptions	8.9	16.1	80
Senior Citizens	6.7	8.3	24
Public Administrator-Guardian	7.6	10.8	42
Public Defender	7.8	4.8	-38

Source: <u>Salary Ordinance</u> of the <u>County of Los Angeles</u>, 1965, 1975

Our conclusion is that a high level organizational planning function is badly needed in the County. This function should establish standards of organizational performance and evaluate the efficiency of existing departments, as well as review the potential effects of proposed changes in terms of these standards.

This effort belongs in the Chief Administrative Office. The Board should require the CAO to report annually on his or her findings and recommendations and their impact on County costs. Until such responsibility is assigned to the CAO the Board has no means of maintaining effective control over costs in relationship to departmental structures and use of supervision.