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## **Economy & Efficiency Commission**

# **Meeting Minutes**

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### **MINUTES OF THE REGULAR MEETING ECONOMY AND EFFICIENCY COMMISSION**

WEDNESDAY, MARCH 1, 1995  
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 Gunther Buerk called the meeting to order at 9:50 a.m.

#### **II. ATTENDANCE**

##### **COMMISSIONERS PRESENT**

Gunther Buerk  
John Crowley  
John FitzRandolph  
Louise Frankel  
Jon Fuhrman  
Jaclyn Tilley Hill  
Carole Ojeda Kimbrough  
Roman Padilla (late)  
William Petak  
H. Randall Stoke  
Julia Sylva (late)  
Robert Philiposian  
Tony Tortorice  
Betty Trotter

##### **COMMISSIONERS EXCUSED**

David Farrar  
Chun Lee  
Randy Stockwell

##### **COMMISSIONERS ABSENT**

Fred Balderrama  
Richard Barger  
Albert Vera

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 February 1, 1995 Commission meeting.

Commissioner Trotter corrected the spelling of Judge Gary Klausner's name on page 2. She also made a clarification to her remarks concerning the judicial council direction: coordination implementation should replace unification.

Moved, Seconded and Approved: The minutes of the February 1, 1995 Commission Meeting be approved as amended.

### **IV. INTRODUCTIONS AND ANNOUNCEMENTS**

Chairperson Buerk welcomed and introduced the newest member of the Commission, John Crowley, who was appointed by Supervisor Antonovich.

Commissioner Crowley gave some background on himself. He is a native Californian, attended Swarthmore College and the University of Denver and is the founder and stockholder of National Medical Enterprises. Formerly, he was in charge of the Southern California Office of the League of California Cities, City Manager of Monterey Park, a Member of the Board of City Directors, and served two, one year terms as Mayor of Pasadena.

Chairperson Buerk stated that he requested Mr. Staniforth prepare a summary of report progress and projected completion dates. The memo was passed out to the Commission for review. Commissioner Fuhrman asked if this was going to be a monthly occurrence. Chairperson Buerk said that it will be done quarterly.

### **V. OLD BUSINESS**

Commissioner Trotter gave an update on Jury Management report. CAO has not replied, but we did receive a note from the Chair of Quality and Productivity pledging their support. Chairperson Buerk asked Mr. Staniforth if he had heard any news concerning the status of the report. Mr. Staniforth replied that the report was referred to CAO for action, but action is dependant on the Superior Courts report which has not yet been issued.

#### **A. Natural History Museum**

Chairperson Trotter reported that as several of the newspapers had reported, search warrants had been issued to the Museum of Natural History due to financial irregularities discovered by the new administration. This happened independent of the E&E's study.

Commissioner Trotter has the second draft of the report and the Task Force will be meeting soon to discuss and finalize it for the entire Commission. Chairperson Buerk asked when she thought that would happen. Commissioner Trotter said she expects to meet next week.

Commissioner Frankel asked how much emphasis was placed on the financial aspects of the museum in our report. Commissioner Trotter said there are recommendations made with respect to the endowment. Mr. Staniforth stated that our report is not a financial audit and, with regards to finances, only deals with budgetary issues and endowment.

Chairperson Buerk commented that since there is a considerable amount of public interest surrounding this report, it would be wise to get our report out as soon as possible. At the next meeting the full Commission should view and vote on the final draft.

Mr. Staniforth commented that there will be an interim period of approximately 3 weeks after the report is released and before action can be taken at the following Commission meeting.

Commissioner Petak asked if it would be appropriate to note in the introduction that we are aware of the financial issues that have arisen, but that this report does not address those issues. Mr. Staniforth replied that has already been done.

Commissioner Hill commented that this report has been prepared with the consensus of the consultant, County Counsel, and Dr. Powell. The Task Force includes in it's recommendations, the request to retain the consultant to

review the issues that have been raised in the report.

Chairperson Buerk stated that additional issues should be handled by separate recommendations and not included in a follow up. The Board or Commission should determine whether or not certain issues are investigated.

#### **B. Department of Health Services-Reengineering**

Task Force Chairperson Tortorice reported that LAC/USC has been slow in responding to requests for information. Mr. Staniforth commented that there was a meeting with the Asst. Director of DHS and he is reviewing general recommendations. The Task Force will proceed with or without a consensus regarding those general recommendations.

Chairperson Buerk asked what is Dr Kaufman's role. Mr. Staniforth replied that he supervises the head of the emergency department. Commissioner Tortorice feels that we will get as much resistance from the hospital when the report is taken to the Board and we should be prepared. The management not upper management appears to have difficulties in fully supporting the efforts of this study.

Commissioner Philibosian asked if the Task Force needed or wanted the input for department buy in. Commissioner Tortorice said that we want the input for validation, however it is becoming less an issue of getting more information. Commissioner Philibosian stated that is an issue we may also want to address in the report. Commissioner Petak stated that since LAC/USC will more likely than not deem this report as "wrong," we must deal with the issue of open disagreement before going to the Board.

Chairperson Buerk said that it is important to flush out the arguments before going to the Board so that the report is not weakened. Mr. Staniforth said that some headway has been made. - Senior Management has reviewed some of the general recommendations in the report and considers them to have merit.

Commissioner Padilla asked if Commissioner Tortorice had seen the study that was in the Los Angeles Times. Commissioner Tortorice said yes, but this report is not clinical, it is administrative - how patients move through the system.

#### **C. Liability and Risk Management.**

In Task Force Chairperson Lee's absence Mr. Staniforth reported that he has reviewed the initial report submitted by the consultant and returned it to them. The consultant had promised to get the report back as soon as possible. Mr. Staniforth had hoped to have the returned report for this meeting, but he had not received it as of this date. The Task Force will receive a copy of the report as soon as the consultant responds. Assuming that the consultant responds soon, the entire Commission should have a copy of the report within the next few weeks.

Chairperson Buerk asked if the earlier difficulties with the consultant have been resolved. Mr. Staniforth replied that the consultant, ARM Tech was sent a memo that the Commission will approve their payment when they approve the report.

#### **D. Unincorporated Area Services.**

Task Force Chairperson Padilla reported that the Task Force received a copy of the draft report a few weeks ago and communicated by conference call last week. The Task Force wants to focus on paring down the report. Commissioner Padilla asked if Commissioner Crowley, who earlier had worked with Mr. Staniforth on the report, or any other Commissioners had anything to add to the discussion. Commissioner Crowley replied that he had not had an opportunity to read the report. Commissioner Padilla asked for him to give a general opinion of the direction of the report. Commissioner Crowley replied that the title of the report "Unincorporated Municipal Services Study" was something that he did not understand to be the direction of this Commission at the time that he worked on the report with Mr. Staniforth. Municipal services should not be limited to the unincorporated areas, instead the cities that receive such services should be included in the evaluation.

Commissioner Padilla replied that the issue has been addressed in the report. Chairperson Buerk added that this is something that has been recognized and the contract services have been addressed from the very beginning. What should be considered is to what extent this issue is covered in the report. Commissioner Padilla commented that this is a very topical issue and cited the Los Angeles Times' article on the new Hawaiian Gardens police force and their discontinuation of their contract with the Sheriff's Department. Commissioner Hill commented that this is also happening in Whittier Hills. Chairperson Buerk stated that there should be an ongoing evaluation of each city so they can work in the most effective and efficient way. The City of Long Beach also experienced this same kind of change in service.

Commissioner Crowley pointed out the importance of county/city relationships. An example is Pasadena's service to

the City of South Pasadena in the form of emergency ambulance service and the relationship of the City of Pasadena to San Marino in helicopter service. What is important is the totality of service provided and the efficiency and economy achieved. He recognized that these issues may not be addressed in the report. Chairperson Buerk stated that this issue or any others of similar nature should be addressed in the recommendations. This is an important aspect of county government. He then asked Commissioner Crowley if he would like to become a member of the Task Force. Commissioner Crowley accepted.

Commissioner Petak asked if the focus of the report had taken a turn. The original intent of the report, as he understood it, was to determine whether or not the county is providing an appropriate level of services to the citizens of the unincorporated areas in relationship to the cost of the citizens in the form of taxes. Chairperson Buerk replied that is not entirely correct. The initial impetus for the report was a presentation from the CAO's office on the county budget, where the Commission was informed that the county budget does not have a separate section for the municipal services that it provides. The report seeks to make recommendations to separate that area of the budget from the county-wide services provided. This led to examination of services and compensation that the county receives.

Commissioner Frankel commented that this was a Commission generated report, not a Board generated report.

Chairperson Buerk stated that the Task Force should plan on giving the full Commission a report in May. Commissioner Padilla said they will attempt to meet that deadline.

### **E. County Economic Growth**

Task Force Chairperson Philibosian reported that the County Counsel had approved the draft. He and he moved approval of the draft to be forwarded go to the Board of Supervisors. It was determined that the entire Commission received a copy of the report.

Chairperson Buerk asked if The Task Force had met since the last meeting because there were several issues and recommendations that some of the Task Force members were very concerned about. The Commission had decided that the Task Force needed to meet within a week after last month's meeting to resolve those issues and report back to the Commission. The Task Force had not met. Commissioner Fuhrman said that he still has problems with the repetitive stress compensation recommendations. Commissioner Trotter agreed. Commissioner Philibosian suggested they take out the section on carpal tunnel syndrome (CTS) so the report can be moved ahead to the Board. Commissioners Trotter and Fuhrman agreed. Commissioner Philibosian stated that the Governor has a package on tort reform that parallels many of the recommendations in the report and the general philosophy of the report. CTS and the Governors tort reform package can be considered in an addendum to the original report. Commissioner Philibosian moved that the Commission approve the report excluding page 5, section A. second paragraph, and submit the report to the Board of Supervisors, and then consider amending the final report with additional information on workmans' compensation and civil tort reform.

Commissioner Frankel said she still had questions about the environmental issues in the report. Commissioner Fuhrman agreed that the language regarding CEQUA is vague. Commissioner Philibosian said that he is not interested in adding anything else to his motion. The motion was seconded. Chairperson Buerk asked if the major concerns have now been addressed. The consensus was yes.

Motion the Commission approve the report excluding page 5, section A. second paragraph, and submit the report to the Board of Supervisors, then consider amending the final report with additional information on workmans' compensation and civil tort reform. Motion carried with a twelve to one vote, Commissioner FitzRandolph voted against the motion and Commissioner Crowley abstained.

Commissioner Philibosian stated that the Task Force would take up the Governor's package which hasn't been formerly introduced, but each proposed item of legislation has an author. There are ten separate bills that will arise from this and he would like the Task Force to review them and then make a recommendation to the Commission for an addendum to the current report.

Chairperson Buerk stated that he had received a letter from Commissioner Sylva regarding the time table of the legislature indicating that there was a closure on accepting new legislation. Does that affect these recommendations? Commissioner Philibosian replied no, that will not be an issue with our recommendations.

Commissioner Fuhrman asked Commissioner Philibosian to tell where the governor's package differs from our recommendations. Commissioner Philibosian replied that it doesn't differ in civil tort reform, it enhances. For example: discouraging frivolous litigation, limitation on punitive damages, alternative dispute resolution, and product liability reform are all in the governor's package. Areas that are in his package that we did not cover are: wrongful termination, shareholder derivative suits, felon's tort claims, no fault insurance, arbitration, mandatory mediation.

Commissioner Padilla inquired about the County Counsel approval of the report. Mr. Staniforth replied that it was a written one line concurrence. Chairperson Buerk added that the main reason the County Counsel needs to approve it, is so that the County is not making conflicting recommendations.

#### **F. Real Property Management.**

Task Force Chairperson Farrar was absent.

Commissioner Trotter commented she attended the Quality and Productivity Commission Meeting and was very impressed with Sarah Stivelman's report on examination of asset management and perhaps Commissioner Waddell, the liaison from the Q&P Commission could expand on the related areas of their studies. Commissioner Waddell replied that he is not on that particular committee, but is aware of the key points that Sarah Stivelman mentioned in her report: asset management group, which is part of the CAO's administration that will be taking over the marina assets, four or five people are assigned to the task of taking an inventory of assets (more are needed), and the overall plan is to determine what to hold and what to get rid of. Office space can be consolidated to a minimum of 10% and there is the option of leasing property.

Chairperson Buerk asked if the Q&P Commission had looked at the reports that the E&E Commission had done. Commissioner Waddell said yes.

Commissioner Fuhrman asked if the CAO had adopted the structure that the E&E Commission had earlier presented to them. Commissioner Waddell said he was unaware of what action the CAO was taking, but that this was a Board directed action for the Q&P Commission.

Commissioner Stoke added that one of the problems is there is no real management - article distribution included an article from the downtown news that stated that the City hired Dan Rosenfeld to be manager of programs. Commissioner Waddell said that he would inform the Q&P Commission that the E&E Commission is very interested in this issue and would like be informed of all developments. Chairperson Buerk suggested that a meeting be set up between Commissioner Farrar and Sarah Stivelman to facilitate communication. It is the Commission's responsibility to bring to the County's attention that the assets must yield a return or be leased, sold, etc. This is a continuing effort in which the Commission must be aware. The original report was more concerned with managing assets, later on the Commission discovered a substantial area of improvement was handling leases where the county is the lessee.

#### **G. Management Information Systems.**

Task Force Chairperson Fuhrman reported that not much has occurred in the last month due to work schedules and former Commissioner Gilson's departure. He and Commissioner Tortorice would welcome any Commissioner who would be interested in joining the Task Force. Chairperson Buerk asked for the time schedule on the report. Commissioner Fuhrman replied he would speak with Commissioner Tortorice and get Mr. Staniforth a schedule by the end of the week. Chairperson Buerk inquired when the Commission would see a report. Commissioner Fuhrman said definitely by May. but hopefully by April.

### **VI. PRESENTATION**

Chairperson Buerk introduced Larry Monteilh. Los Angeles County Treasurer, presented his background and introduced today's topic: Orange County's Financial Situation and How it Effects Los Angeles County.

Mr. Monteilh thanked the Commission for the opportunity to speak to them about this subject. He outlined his presentation that would start with a review of the situation, the measures Los Angeles County has taken that insure it won't happen here and what is taking place at the state and national level to deal with this type of problem.

The Orange County situation was a liquidity situation that got out of hand. The Orange County Treasurer had a very aggressive investment strategy that called for the use of leveraging that employed a reverse repurchasing agreement, buying derivatives and speculating on interest rates. For twelve or thirteen years this was a very rewarding strategy. Orange County's budget was based on 40% of the interest earnings from this pool.

All Counties have the same by-laws by which they can invest - short term money market instruments. Mr. Citron, the former Treasurer for Orange County, was no different, but he would show rates of 8 or 9%, while LA County was showing rates of 3.2%. You have to question, "where is this difference coming from?" Either it is coming from duration, or the investment product is not as safe as it appears. Both were the case in Orange County's situation. They had a portfolio of \$7 billion, Citron leveraged the portfolio 250%, from seven billion to seventeen billion dollars. How this works in reverse repurchasing - you loan a security to get cash in and you make a simultaneous agreement to purchase that security back at a specific time. There is collateral that has to be maintained. Then the money would be taken to buy another security, etc. When interest rates are stable or going down then the returns look very good. When

the situation changed, he continued thinking that the market would revert, he got caught in a liquidity crunch. He didn't have enough cash to pay bills. The portfolio went down in value and brokers issued margin calls.

It was at this time that a problem was suspected. Major depositors were called in and told there was a problem that was manageable and were asked to not pull out their funds. He was not able to hold to maturity and had to liquidate in order to pay bills. The county subsequently declared bankruptcy. This action (of Orange County) to declare bankruptcy will be long debated because it is hard to believe that the underwriters would not have been able to find a way to restructure these finances.

Commissioner Stoke remembered an article he read that stated that Merrill Lynch had made an offer through Orange County's consultants to restructure the fund but the Supervisors were unable to meet on the subject. Mr. Monteilh pointed out that Merrill Lynch had a relationship with the Treasurer that led to a number of these investments, and they had a position of two billion dollars that they still hold. They did apparently warn the Treasurer and legislative body two years ago that they were dealing with a volatile financial situation.

Chairperson Buerk asked that whether the fact that the County Treasurer was an elected official made the situation worse. Mr. Larry Monteilh said he believed the way that Orange County handled its business was the problem - they were given many signals and ignored all of them until it was too late. The auditor controller had in his report that this was a risky situation.

In LA County there is a detailed investment policy explaining exposures at any level, credit facilities, or duration. There is a separate document dealing with internal compliance. The people who are involved in investing have nothing to do with the compliance.

Commissioner Fuhrman asked if we mark to market on a periodic basis. Mr. Monteilh said no, we show market value, but this issue has been surfacing lately in relation to legislative issues. The treasurer files a monthly report with the Board that shows the total portfolio - costs, market value, etc Mark to market means you take your gains and losses immediately, this is difficult for most government agencies who buy to hold to maturity in order to accrue and share earnings over a period of time.

Commissioner Trotter asked if there were state laws that govern what portion of County funds can be invested in certain types of investments. Mr. Monteilh said yes, and it appears that Orange County met the government code provisions.

Commissioner Hill inquired as to the checks and balances of Orange County's government as opposed to LA's system. Mr. Monteilh stated that the auditor controller does audit the treasurer, however he was a year and a half late. The auditor-controller is required to file a report with the Board of Supervisors every year. The way this report was filed, it forecasted interest rates.

Commissioner Padilla asked how rating agencies can perform an analysis and not discover that anything is wrong. Mr. Monteilh responded that in September, Orange County had issued some pension obligation bonds. Part of that structure was a floating rate note, a Swiss auction that resets the note every seven days. The credit behind the liquidity to pay people who wanted to cash in options was the Orange County pool. The rating agency apparently did not feel this was risky or unusual. Subsequently, LA County has been inundated with rating agencies in response to the Orange County crisis. LA County has provided all information on its portfolio to any requesting agency.

Mr. Monteilh believes that Orange County's situation will effect us and it will cost us something, but we will not know its cost or effect until we see how Orange County responds to the debt payments that are due in July. They have not defaulted on a payment yet, they have only technically defaulted on their TRANS issues. They are supposed to be "setting aside" each month for the TRANS due in July, but they have not. What that means for us is that we will probably be required to get a trustee for the funds and not leave them in the pool to which there is easy access.

Chairperson Buerk asked Mr. Monteilh to give some comparative figures of LA County's investments and Orange County's. Mr. Monteilh said that L.A. County's share of the pool is approximately \$80 million in interest earnings on a \$14 billion budget. Chairperson Buerk asked what the total amount of the pool is. Mr. Monteilh replied approximately \$7 billion. Chairperson Buerk asked how much of the \$7 billion is L.A. County's. Mr. Monteilh replied 1/3 of the total pool.

Commissioner Hill asked if there have been enough similar situations nationally to have a designated expert that can advise and restructure. Mr. Monteilh said he didn't feel that was the solution, We need to have the checks and balances to prevent this from happening. That is what was missed in Orange County and most of the legislation that is forming is geared towards that however some of the legislation is hurting us, such as eliminating reverse repurchasing, which can be done safely.

Commissioner Philibosian thinks that one of the problems for the Orange County Supervisors is that for whatever reason they did not fully understand what was happening in the Treasury office. What kind of reporting does LA Treasurers office do to the Board of Supervisors? Mr. Monteilh replied that they have always provided their investment guidelines annually to the Board in a receive and file fashion. The investment report is a monthly agenda item. At the meeting with the Supervisors right after Orange County's bankruptcy filing, Supervisor Yaroslavsky had asked about the investment guidelines and a motion was made that those guidelines should be approved by the Board. Yesterday, February 28th, they approved the first set of guidelines. Unrelated to Orange County, the Treasurer had been in the process of bringing in an outside consultant to examine the portfolio and to make sure it was efficient and getting the best deals it could and in compliance with the law.

A mid-west group had done a report that showed California county portfolios as low risk, moderate risk and high risk. LA County ended up in the moderate risk category. Their research consisted of a telephone study with only two questions: 1) do you have reverse repos and 2) do you have derivatives. LA County has both and this group deemed anything that had both classified as risky - a completely inaccurate assumption. Due to that, Supervisor Antonovich asked them to take a look at their guidelines to see if there was room for improvement. The Treasurer did and decided to strengthen the guidelines: now reverse repos must match reinvestment, average rate of maturity dropped from 2.5 years to 1.5 years, monthly reports must be filed with the Board of Supervisors. All of this was a tweaking of what was already in place. The LA Times did their own study and classified LA County as conservative.

Commissioner Fuhrman asked what kind of internal controls are in place to report on pension funds? Mr. Monieilh replied that the Board of Retirement by constitution is in charge of the retirement funds. There is also a separate county controls division that oversees as well.

Chairperson Buerk asked who is a participant in the pool. Mr. Monteilh replied the major participants are approximately: 67% is non-discretionary (LA County, all school districts), 33% discretionary (Metropolitan Transit Authority has about 7%, Sanitation District 14%), 10-15% with other cities and districts.

Chairperson Buerk asked if there was anything Mr. Monteilh was aware of that the Economy and Efficiency Commission could do to assist. Mr. Monteilh replied if there is something that interests the Commission covering oversight committees would be an area for review. Chairperson Buerk said that is something the Commission would consider and thanked Mr. Monteilh for his presentation.

## **VIII. ADJOURNMENT**

The meeting was adjourned at 12:15 p.m.

Respectfully Submitted,



Bruce J. Staniforth  
Executive Director

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