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Economy & Efficiency Commission Presentation

**PRESENTATION BY
Mr. Keith Comrie
Chief Administrative Officer, City of Los Angeles
Topic: The Status of Los Angeles City Government
November 5, 1998**

Chairman Abel introduced Keith Comrie, the City Administrative Officer of the City of Los Angeles. Chairman Abel felt that it would be a valuable contribution to the Commission if Mr. Comrie could share his views on the City's efforts in charter reforms.

Mr. Comrie stated that he planned to provide a brief overview of the City, as a public works and public safety agency vs. the County which handles health and social services. A major portion of the City's budget of \$9.4 billion goes to police and fire, rebuilding infrastructure for the area--water system, electric system, the airport, the port, and the sewer system and roads, etc.

The City's budget is unlike the county budget, in that only \$2.5 billion comes from the general tax base, while the remaining 70% comes from fees for services. The City is a business type of operation, e.g. consumers buy electricity based on volume and rates, shippers pay for the harbor, and the airport pays for itself. This funding structure is easier to manage since the City is not as reliant on the State and Federal governments as is the County.

Mr Comrie stated that since the City has much more flexibility, it also the responsibility to run an efficient operation. Commissioner Buerk asked if the City received a return on their investment in these activities. Mr. Comrie answered that this is true only for one service, the Department of Water and Power, for which there is a 5% return on investment, in lieu of taxes. The harbor and airport are under strict state and federal laws and can not provide a return, they only provide a return for services provided.

The City's revenue base is only \$2.5 billion. This is not unusual for cities. The revenue sources are:

- the largest being the property taxes,
- utilities users tax (a percentage of electric bills),
- one cent of sales tax,
- business taxes which ranges from 1/10th of 1% to « of 1% on gross receipts,
- licenses, permits, and fees which includes building, safety, planning,
- State motor vehicle funds.
- Power revenue transfer, which represents a return of a \$100 million from the electric system, and,
- a water revenue transfer of \$22 million based on gross receipts.

Commissioner Barger asked if in the era of the utility deregulation where a number of utilities won't have

user taxes, will this require a monthly payment? Mr. Comrie responded that for years the City's rates were about 30% less expensive than the private utilities, but that is no longer true since the City is going through this same deregulation. The City's residential rates are about 10% less expensive, but its industrial rates are either the same or slightly higher. The City has undertaken a major effort to restructure. Eventually, Mr. Comrie believes that a public utility can run just as efficiently as a private company if they get into a competitive mode. The public utility doesn't pay taxes, it pays its executives and management far less, they borrow money at a cheaper rate, and doesn't pay dividends.

The City currently has a \$5 billion debt as a result of technology in the electric industry caught up with the public utility. Industry can now build plants that can produce electricity for far less than the old plants. The City wants to keep these plants through the utilization of a strategy that requires paying off the debt on the older power plants. This approach has two advantages:

1. Los Angeles air stays clean.
2. These plants have a 200 year supply of clean burning coal

These older plants have downsized about 4 thousand staff out of 10 or 11 thousand. There is also a buy down schedule that is progressing at a faster rate than anticipated to make the older plants increasingly competitive.

The economy hit the City hard because many of its revenues are sensitive to the economy, e.g. sales tax, business tax, and property taxes fluctuate with the economy. In the course of this economic difficulty the State took \$100 million dollars away from the City. The City is still battling over home rule for cities and counties. In addition, Mayor Riordan wants to hire 2000 to 3000 new police officers. As a result the City had to restructure \$380 million of the \$2.5 billion budget.

The most economically sensitive tax is the sales tax. In past recessions, the decline in sales taxes was only for one year. In the most recent recession, sales taxes went down for 4 years straight. The City attempted to respond to declining revenues without resorting to layoffs through the use of:

- hiring freezes,
- benefit savings,
- looking at HMOs and Co-Pays,
- 2 year pay freeze with union cooperation.
- Efficiency efforts included:
 - computerization of numerous systems,
 - revising purchasing systems through best practices studies,
 - water and power best practices studies
- Staff attrition - the City lost about 3,000 staff in General Fund departments.
- The independent departments helped DWP had a surplus in one year and airports discovered some land for which the City had not been reimbursed.

Of the \$2.5 billion, 70% goes to fire and police, 8% to Library and Recreation & Parks, and a small cultural budget. The remainder goes to Public Works. Staffing was restructured with police increasing approximately 5% and Fire decreasing approximately 25%. Commissioner Tortorice asked if the reduction in Fire staff had impact on response time. Mr. Comrie responded that times are approximately the same, with some response times less on certain types of equipment, e.g.. there are more paramedics today than previously. The City retains a class 1 insurance rating.

The police share of the budget went from 42% to 50%. All other departments are declining. A five year forecast shows that next year the City faces a \$30-\$40 million out of balance situation, but given that the City has faced a couple of years where there was a \$200 million out of balance possibility, this amount would appear to be manageable.

One problem the City is facing is the withdrawal of three years of federal grant money to fund new police officers. The City is now attempting to make up for the loss of that federal money out of the general revenue

base. The conventional wisdom was to accept the federal funding and then try to find the money later.

Commissioner Buerk inquired as to what increase in cost of fees are included in the forecast of revenues and expenses. Mr. Comrie responded that the City can only increase fees by actual costs, e.g. labor contracts are in place that are going up 2% every six months, thus, fees go up roughly 4% per year. In addition, general revenues should increase about 3.5% a year -- a conservative estimate in a decent economy.

Commissioner Crowley questioned that when the cost of living is not rising at the rate that payroll is rising, how can one account for the fee increase of 4%? Mr. Comrie found that historically, when inflation is high, wages lag, when inflation is very low, the productivity gains are going back to employees.

Chairman Abel asked Mr. Comrie to address the prescription for incompetence and cost within the City. Mr. Comrie responded that the City now has two charter commissions in place - one elected and one appointed. The City is working with the appointed commission to revise the current charter. In terms of the elected commission, Mr. Comrie disagrees with the approach being taken. The mayor appears enamored with the Chicago and New York models which centralizes significant power in one office without the checks and balances of the mayor/council form of government.

Commissioner Barger asked why the Mayor likes the New York model. Mr. Comrie stated that the Mayor wants much more authority than is granted to him by the Charter. The Mayor is not a weak mayor, e.g. he currently has the line-item veto. With this authority all he has to do is convince six City Council members. Major decisions should not be done behind closed doors and thus, the process should be done in the open. The Mayor wants more power to make decisions. The Mayor wants two things:

1. The ability to fire department heads, without Council input. Future mayors may not have extensive management skills, and thus, if they have the ability to hire and fire, the City will not be able to attract qualified people for executive level positions. Department heads can currently be fired for not reaching agreed upon goals and objectives. The City will lack continuity.
2. Abolish the Chief Administrative Officer and transfer all the functions to the mayor's office (the New York model). Mr. Comrie feels strongly that "sunshine" laws are critical to the efficient operation of government.

Commissioner Fuhrman was curious at the depth of opposition of Mr. Comrie and Mr. Ronald Deaton, the City's Legislative Analyst, to what seem like straightforward reforms to centralize accountability. He also wasn't certain about Mr. Comrie's contention that "we're doing pretty well." Mr. Comrie stated that he feels that the City does have centralized accountability, the Mayor is the Chief Executive with a staff of 100, recommends the budget to the Council, and has the line-item veto. The Mayor is not in a weak position if he does his homework.

Mr. Comrie stated that the Mayor's chief of staff is the most critical person the mayor has, and Mayor Riordan has had five chiefs of staff in five years. There will be no institutional knowledge in the city--they will be reinventing the wheel every day of the week. Commissioner Fuhrman contends that he doesn't think there would be any difference between the proposals that the elected charter reform is coming up with in terms of sunshine. Any major decision still has to go to council for approval. All you're allowing the Mayor to do is to appoint, and essentially control, the key people that are his direct reports. Mr. Comrie responded that the Mayor has recently said that we had a very low police officer per capita ratio. The Chief Administrative Office did a survey of 10 big cities. The western cities have fewer police officers and less crime than eastern cities. Mr. Comrie felt that he could not submit this report if he could be fired by the mayor. There would be no factual information given and that would apply to all thirty-three department heads -- they could never go to the Council with factual material that contradicts a position that the Mayor desires to hold.

Commissioner Fuhrman attempted to point out that there were ethnic and demographic differences between cities. Mr. Comrie felt that the differences were not as significant as Commissioner Fuhrman stated.

Commissioner Lucente said that there isn't a question of responsibility of the Mayor, but there is a big question of accountability. He believes that the central argument should be who is held accountable for

decisions. The mayor should have the responsibility to manage departments, but who do you hold accountable if the Council has the ability to override decisions? Mr. Comrie stated that the Mayor is the Chief Executive and the department heads report to him and he tells them what to do. The Mayor has the ability to discharge any department head since the Council is tougher to deal with than the Mayor. If the Mayor has this sole responsibility the citizenry will not have the facts on these decisions.

Commissioner Crowley mentioned that Mr. Comrie had stated earlier that New York City is not cited in public administration textbooks as an example to be emulated, but neither is Los Angeles. Mr Comrie agreed that the City could be better, but he does not see the voters approving the "city manager" form of government in Los Angeles--it's too big, so what we have is the "mayor system" and the mayor is the chief executive. Admittedly, it is somewhat complex, and there is material in both the appointed group and the elected group to simplify that charter and make it more straightforward. There are many difficulties in the charter. For example, the mayor and council can only reorganize certain departments. They can't reorganize offices-- which is my office, the City Clerk, the Treasurer, or independent departments. Mr. Comrie feels that the Mayor and Council should be able to reorganize any department to keep things efficient. There are a lot of reform proposals, but don't change the sunshine from government -- don't move things to the back room.

Commissioner Lucente asked what revisions in the Charter may be made to enhance the financial viability of the City of Los Angeles. Mr. Comrie commented that the Charter isn't going to help with that, what the City has is the lack of a predictable revenue base and a loss of home rule. This results from an offshoot of Proposition 13 and a terrible decision on a business tax at the state level where the Court stepped in and said if the State defines revenue as a Statewide issue they can take your revenue base away. The State now has the ability to come into every city, every school district, and every county and do what they see fit.

Unpredictable revenue bases are not the correct way to run companies, big cities, or counties. The City needs to go back to the Home Rule Provision, and it ought to be applied to both counties and cities, and schools if possible. Those agencies then have the ability to go to those constituents and inform them of the level of service which can be provided.

With the State's ability to take taxes, no Council will try to implement a new tax. The real question lies in the Home Rule question. The City missed the boat on pushing the Home Rule Provision. Too much time is being spent on Charter Reform, rather than the larger issue of Home Rule which is of greater importance to citizens.

Commissioner Lucente asked if the City Council isn't in the process of devising a means to increase revenue? Mr. Comrie stated the Council tried, but it takes a two-thirds vote. It would be desirable to be in the position of having home rule so that when they do go to the voters it stays in place -- the State can't take it away. Mr. Comrie also wanted to see something less than the need for a two-thirds vote, e.g. the State only requires a 50% on its bonds -- but that gets a bit too controversial for now.

Commissioner Philibosian said that what he hears seems defensive and it sound like the only way to raise revenue is to fight with the State, raise taxes, or sell bonds. Little is coming out of City Council or Mayor's office on how to increase tax revenues, both sales and business taxes, by increasing business activity. Mr. Comrie mentioned that there is actually a lot going on, but it does not receive much media coverage. The arena downtown was a good example -- there will no general fund subsidy. Mr. Comrie agreed that new businesses are the way to bring in new revenues. He stated that given the current State tax structure, there is no incentive for industrial land acquisition, and there's no incentive for any business that doesn't generate sales tax revenues.

Chairperson Abel mentioned that there's no incentive for industrial development Cities must go to sales tax in the retail area. Commissioner Stoke commented that Los Angeles eliminated industrial development long ago with the value of land being so high.

Commissioner Buerk asked about the City's redevelopment districts, e.g. San Pedro Area, and the current status. Mr Comrie responded that redevelopment areas are under caps and thus, activity is limited, unless the

economy starts to move and generates more money. Hollywood looks like it's coming back, but redevelopment is never a complete solution -- the private sector is more important and whether or not they see value in an area.

Chairperson Abel thanked Mr. Comrie for his time and making an excellent presentation to the Commission.

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