



Mayor's Budget Recommendations

Fiscal Year 2013

Presented August 1, 2012

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Members of the City Council:

Pursuant to the Long Beach City Charter, I am transmitting the Mayor's Recommendations on the City Manager's structurally balanced budget for Fiscal Year 2013 (FY13).

We all know the economy suffered a substantial shock in 2008 and the recovery is slow and fragile. Many economists believe we are entering a new era, "the new normal," marked by slow to moderate growth, higher unemployment, and competition on a global scale. Rather than long for the good ol' days of government – or worse, continue policies that reflect the belief that they will return - we need to embrace the new reality and change the way we conduct the public's business.

In doing so, we will be at the vanguard of American cities fostering economic growth and entrepreneurship, building opportunity, and enhancing environmental sustainability; all possible through strongly rooted fiscal policy that provides maximum value to residents. The changes will affect every area of government service.

No one should impugn the work performed by public employees or the contribution they make to our City. These are the people who perform the functions we all rely on from public safety to public works. They are not, however, a special class immune from the economy or modern work rules and sustainable salaries and benefits.

Technical provisions of employment contracts are rarely changed. Often, contract provisions dealing with overtime, skill pays, vacation pay, and other forms of special compensation have been layered on and gone unexamined for decades. This obscures the true costs of benefits and makes it difficult for any City Council to make responsible fiscal choices. It's difficult to even explain why some of these bonuses exist and more difficult to see a public benefit.

The result is a complex set of work rules and bonus pays, the purpose and need for which is long forgotten, that cost the City millions of dollars a year with no attendant increase in service for residents. With the number of skill pays available to City employees, it is not surprising that a large portion of the workforce is receiving multiple skill pays. Eliminating these represents a significant cost savings option as presented by Management Partners to the City Council.

Without question, pension reform is a must in this "new normal." The need for reforms is abundantly clear and leadership of the represented groups must appreciate the new reality to help their members and the City create a sustainable structure. Bargain hard, but the old "I give this and you give me that" will not work anymore.

I again want to applaud and thank our Police Officers' Association and the Fire Fighters Association for their first steps toward this new compact with the adoption of pension reform. I am, of course, disappointed that the International Association of Machinists (IAM) has still not accepted pension reform. We have tried for nearly two years, during which time they will receive at least 7% in salary increases. Each year of delay costs our residents \$12 million in services and much more in future unfunded costs. If IAM continues to be intractable, I will place a pension measure on the ballot. It is not my preferred path, but reform is a necessary outcome and I am left with no other option.

Understanding that pay and benefits need to be fair, how the work is performed should be determined by a competitive framework that produces maximum value for residents. Importantly, we have an obligation to examine services where the private sector could perform work more effectively, reduce costs or provide a revenue stream, as opposed to an expense, to the City.

A recent "benchmarking" report by Management Partners indicated that Long Beach had the highest staffing per 1,000 people of all the cities studied; we were nearly twice the median. While not definitively proving there is a problem with Long Beach staffing levels, this fact certainly leads to questions about whether we are making efficient use of funds. Other cities are spending less, in part because they make more use of the private sector to save money. This makes even more sense when pension costs and the weight of obsolete work rules are added to the calculation. Look at the reforms underway in Chicago under Mayor Emmanuel; sometimes, the private sector can do better work for less money. We need to take advantage of that reality moving forward.

All of our functions should be reviewed in this light. Many, if not most, other cities perform work such as custodial services, street sweeping and refuse hauling via the private sector. We will not only save money for residents, but we can apply savings to critical local government functions such as public safety and improved streets and sidewalks.

We should also examine if some functions need to be performed by government at all. For example, City employees still do oil changes on City vehicles. Why? Does anyone doubt that this service is readily available in the private sector for less? It is a small issue, but is indicative of a complacency that cannot exist in the "new normal" in which we now operate.

If we competitively contract for certain services where it makes sense, make the contract changes to reduce overtime, and reduce the number and availability of premium pay, we can save an

estimated \$27 million annually. It would make us leaner and ease operational management – and in some cases, provide even better service.

The savings from these changes would nearly eliminate our 3-year deficit and bring us into honest structural fiscal balance -- and this needs to be done before there is any attempt to ask voters to increase taxes.

We must continue consolidation of functions to eliminate waste and reduce administrative overhead. We need to not only look internally for consolidation but externally as well. Internally, we should consider a common purchasing function for all City departments, including all the enterprise funds. Costs could be reduced and this simply is common sense not to fragment the purchases of goods and services. Further, our Public Works Department performs many similar functions to the Water Department and Oil and Gas. All three departments are heavily involved in street cuts and other infrastructure activities; if we gain nothing more than having the same street cut up once instead of three times, it will be worth it.

Externally, we should explore ways in which we can work jointly with other cities around us to provide better and more efficient service. There is a natural tendency to “guard your turf” but that “turf” is paid for by our residents; regardless if it’s through a tax or a utility rate, we need to serve our community, not some bureaucratic fiefdom.

This new direction for our City will not be easy. We will be told that we need to do our business the “Long Beach” way and work as a family. We will be told that the enterprise funds are businesses and should be treated differently.

Let me try and put it another way: You would not pay more for something in your family’s budget if you could get the same service for a better price or worse, buy it at all if you didn’t need it. Neither would you refuse to save money simply because the source of the payment was a different checking account. Regardless of the source of public money, whether it is taxes, a grant or fees for service, spending public money requires a higher standard of care than you exercise with your own.

The truth is, we need to do our business the right way for all the residents who are paying the bill.

I continue to believe that public service is a noble calling. I want our residents to have full faith that their money is being spent wisely. I want our people to have trust, confidence and respect for our employees. It is not healthy for Long Beach if our City employees are seen as the source of our public finance crisis.

If we don’t take this new road, we will financially deteriorate. We will continue to deteriorate until we can no longer perform needed services and are compelled by market forces to change. That will be a painful and dangerous road and put us years behind in making changes that will be

required no matter how far we put our heads in the sand. Look around the state of California; the dangers of that way of thinking are clear.

I welcome the discussions that will follow over the next several weeks. And the exploration of these issues will not end with the adoption of the FY 13 budget.

We can do this. If we act now we can demonstrate what I know to be true; that Long Beach is a great place full of innovation, talent and energetic people who want to protect the future for our children and grandchildren. The future is very bright if we take the right road today. Let's do what needs to be done to bring our City back into balance and serve the people who pay our salaries. I hope you will help me make this a reality.

Recommendations:

- Direct the City Manager to immediately undertake the appropriate studies to move Custodial Services, Street Sweeping, certain Technology Services and Refuse Hauling to a competitive bid for service delivery.
- The City Manager should, within a reasonable time, report to the City Council on other areas where the private sector can perform work now performed by City staff.
- The City Manager should at his earliest opportunity implement discretionary changes to overtime, premium pay, standby pay, and other "bonus compensation" that can be made consistent with federal law and without contractual alteration.
- The City Manager should create a list of antiquated or unnecessary employee contract provisions and report his findings to the Mayor and City Council. The list should be the priority for future contract negotiations.
- The City Manager should undertake an analysis of the costs and benefits of the consolidation of departments; specifically, Public Works and Oil and Gas, and the Water Department. The analysis should include any legal issues of such a consolidation.
- While we have followed the concept of "proportional share" for the past several years, it is now time to examine whether there are some functions that should be eliminated and not simply reduced. There may now be some functions that have so few resources that they are not worth doing at diminished levels.
- Embark on a comprehensive Police and Fire Department services review.

No one in a policy position should get caught in a panic or rush to judgment regarding crime increases. We all should remember that crime hit 40 year lows, so recent increases in some segments are applied to a very low base. The Police Department should also not be immune from efficiency or management rigor.

The recent Management Partners report shows Long Beach has not only more sworn officers but more overall employees per 1,000 residents than comparable cities.

So, presented with that information, we have a responsibility to ask: are we using our resources in the best manner and in the most efficient ways possible? With that in mind, if an examination determines more resources should be applied to our police, then we must consider what we eliminate to re-allocate those resources.

The Fire Department has proposed a new way to deliver core services more efficiently at lower costs -- and achieve faster medical response times. I wish I could tell you it is a radically new idea; it is not. This service model is in place in Ventura, San Diego, San Bernardino and Santa Barbara counties -- and has been for years. And since 84% of all the calls for service in Long Beach are for medical response, this one change is emblematic of delivering improved service levels at a lower cost.

- The City Manager should report to the City Council on if and how the City can take advantage of the recommendations in the Management Partners report related to changes in the City Charter or municipal law.
- Allocation of one-time resources

I am supportive of the majority of the one-time uses proposed by the Manager, including:

- \$2.9m. for a 40-person police academy;
- \$3.6m. to finally construct gender-equitable fire stations;
- \$2m. for creation of a "risk reserve" to guard against oil price fluctuation.

Additionally, I am recommending that the City Council allocate \$1m. to restore the 33% cut in the sidewalk repair budget.

Finally, I want to take this opportunity to remind the City Council of significant potential costs resulting from a pending decision on furlough litigation related to previous budget years. That decision may present a need to remand substantial payment and I want to note that as of today, the City has not identified a funding source for those costs. One-time funding sources or additional mid-year cuts are the likely only options.

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