



CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: May 8, 2024

TO: Budget, Finance and Innovation Committee

FROM: Kenneth Mejia, City Controller 
Rick Cole, Chief Deputy Controller 

SUBJECT: RESPONSE TO CAO MEMO ON ADDING UNFUNDED POSITIONS TO THE BUDGET

In his May 7th Memo to the Budget, Finance and Innovation Committee, City Administrative Officer Matt Szabo reiterates his call to permanently eliminate more than 2000 currently vacant positions.

This “crisis” response addresses a situation arising from manufactured urgency. The issues that have triggered this strategy were foreseeable – and foreseen. In January and March 2023, our Office explicitly warned against the potential for revenue shortfalls, overspending due to under budgeting costs and the anticipated staff compensation increases. Then, abruptly in January 2024, a partial hiring freeze was put into immediate effect. This halted the orderly hiring by departments to address the severe shortage of staff.

Now the CAO defends this short-sighted response to a real and ongoing problem by insisting that the positions identified for elimination with little or no input from the affected departments is crucial to a long-term solution to the structural deficit. This insistence is buttressed by a series of defensive arguments to discredit a practice of long-standing in the Police Department (PD). Rather than an objective analysis of the pros and cons of applying the PD example more broadly, the memo is framed as a “case” for why the CAO is correct. Ultimately, however, the CAO fails to make a case why what is good for the Police Department is bad for every other City department.

Here are responses to the CAO’s “Case Against Adding Unfunded Positions.”

CAO: *In light of the increased employee compensation costs, slow revenue growth, and the minimum level of available reserves, it will not be possible for the City Council to restore a significant number of these positions with funding without also identifying other reductions.*

RESPONSE: This is correct. However, retaining specific positions does not assume all will be filled anytime soon, only that as conditions change, there is flexibility for departments to restore the most critical positions. One very real possibility is to trade these for other positions that may become vacant in the future – without requiring the

onerous and time-consuming process of seeking reinstatement through the Budget and Civil Service processes.

CAO: *While this is feasible from a budgetary perspective, this Office strongly recommends against any such proposal. Position eliminations are required to regain structural balance. Since the employee compensation increases are ongoing and will grow over the course of the contracts, the Budget must include ongoing reductions if it is to provide an initial step toward the City regaining structural balance. Employee related costs represent the vast majority of the City's ongoing costs and it is therefore impossible to reduce ongoing costs to the degree required without reducing employee related costs. Adding unfunded positions to the Budget does not result in ongoing reductions as the cost of those positions must be restored, pursuant to City practice, as an initial step in preparing the subsequent year's Budget.*

RESPONSE: No dispute that reducing costs to achieve structural balance requires fewer funded positions. However, the "practice" that CAO relies on here is not applied to the unfunded positions in the PD – so why must it be applied to other departments? This is a classic "that's not the way we do it" argument that ignores the fact that in PD that is exactly what we do.

CAO: *Therefore, this Office will assume that the City will restore those costs beginning in 2025-26 in our Four-Year Budget Outlook, which is already projecting deficits in the subsequent three fiscal years. Doing so will increase the level of projected spending above projected revenues by over \$250 million per year, significantly exacerbating the projected structural imbalance and eliminating the pathway to structural balance in FY 28-29.*

RESPONSE: Another example of relying on practice rather than logic. If the positions are assumed to be unfunded until funding is available, then the Outlook can reflect that reality. Not that hard.

CAO: *Adding unfunded positions violates the City's Financial Policies. The City's Financial Policies state: The inclusion of unfunded positions in the budget is discouraged. Full funding for all positions in the budget, however, is not required if it can be demonstrated that a department is unlikely to be fully staffed throughout the fiscal year. As stated in the enacting report to these Policies, the second clause of this policy "recognizes the current practice of adjusting the amount of funds provided for positions to take into account vacancies, the time required for hiring, or other salary savings that accrue during the course of the fiscal year." It does not provide an exemption to add unfunded positions to a budget. The existence of, and the City's compliance with, approved financial policies is a cornerstone of the City's ongoing commitment to operating with fiscal responsibility, as the public deserves. Violating or changing the policies rather than taking the difficult steps that compliance may require when faced with challenges calls into question the City's commitment to fiscal responsibility.*

RESPONSE: The City's Financial Policies allow that full funding is not required for positions if we know we're not going to fill them, which is the case for what we're proposing to do. Again, the practice of including unfunded positions in the PD budget not only reflects the challenges of retention and hiring for achieving staffing goals, it acknowledges that if we overcame those challenges, it would result in budget overspending. So, it reflects an aspiration that is neither financially nor practically achievable in this budget year – but recognizes that filling at least some of the positions remains an option.

CAO: *Unfunded positions create unrealistic expectations for service delivery. The existence of positions in a budget should lead to the provision of related services. Absent funding for these positions, departments cannot provide the promised services. This places unrealistic expectations on General Managers to deliver services that they cannot. It also misleads the public reviewing the budget, who would reasonably assume that the positions provided lead to the delivery of the associated services, even though they will not.*

RESPONSE: What is unrealistic is to have an arbitrary elimination of positions on the basis that they happen to be currently vacant will not have a severe (and ultimately unnecessarily pronounced) impact on service delivery. General Managers made clear to the Budget Committee that they could better deliver service in accordance with elected officials' priorities (and in some cases reduce costs and liability risk) by having discretion over which positions are filled.

CAO: *Unfunded positions create a liability due to the lack of appropriate budgetary controls. Giving a department the authority to hire for a position for which it does not receive funding increases the risk that it will overspend its budget during the fiscal year. Thus, including unfunded positions reduces the budgetary controls that are a core component of fiscal responsibility. While budgetary controls are always important, they become even more critical in years, such as 2024-25, when budgetary reserves are at or below their minimum level and the risks of overspending are high.*

RESPONSE: The City has lots of budgetary controls and can always invent new ones. What we don't have are effective budgetary controls when departments overspend for overtime and salary adjustments (e.g. PD). Instead, the City has simply frozen hiring in other departments to meet the shortfall. In fact, departments have long had to stay below filling even their funded positions due to the "salary savings" formula imposed on their spending. The most important protection against overspending is accountability. Give General Managers the tools and they will gladly accept responsibility for using them prudently, which we have seen as most City departments are currently generating a budget surplus. The lack of trust by the CAO in the General Managers is disheartening.

CAO: *Unfunded positions reduce the budget's ability to serve as an operational plan for the City. As is often said, a budget is a plan that reflects the values and priorities of an entity's leadership. For the City, the budget is the opportunity to direct the subsequent year's activities for each City department by providing the resources to perform strategically selected activities. Adding unfunded positions means that a department will not be able to deliver all of the services that it is authorized to perform.*

RESPONSE: The CAO may need to be reminded that the CAO is not "the City." The leadership of the City certainly includes General Managers, many of whom have pleaded for retention of unfunded positions out of their desire to deliver quality services within fiscal constraint. Imposing top-down bureaucratic barriers to balanced staffing undermines their ability to do just that.

CAO: *Unfunded positions reduce the opportunity for strategic change. Restoring the deleted positions without funding means that, if the City is able to regain structural balance in the coming years and afford to pay for more positions, it will again provide the same services in the same manner that it did prior to approving the compensation adjustments. The City will gradually return to the current status quo. Alternatively, eliminating these positions requires departments to identify creative solutions and efficiencies or to restructure in order to continue to deliver core services. Then, as the City begins to regain structural balance, the City Council and Mayor, as is appropriate, can make strategic decisions based on current conditions to add positions in the most critical areas.*

RESPONSE: This is exactly wrong. The identification of the more than 2000 positions for elimination was an arbitrary, rushed and opaque process. It mistakenly called for eliminating more than 100 currently filled positions in addition to arbitrarily assuming many other filled positions could be eliminated by reassigning staff without consultation with the affected departments. This is the opposite of *strategic*. Recognizing the long-term, systemic nature of the City's budget challenges, retaining some key unfunded positions at the request of the affected Departments would provide an opportunity for them to participate in the strategic rebalancing that's needed for the City to return to fiscal health and continue to provide vital services.

CAO: *The difficulty of adding positions to the Budget may be anecdotally compelling, but it is not empirically accurate. After the pandemic low in 2021-22, the City added over 2,041 positions to the budget in the subsequent two years, an increase of 5.6 percent.*

RESPONSE: Of course, there will be an increase if you compare FY 2023-24 to the pandemic year of FY 2021-22 when positions were eliminated, however, there was only a net increase of 575 regular positions compared to that year and some departments still got decreases. In addition, the City was still short 1,765 regular positions when comparing FY 2023-24 to the pre-Great Recession year of FY 2008-09. When

comparing FY 2023-24 to FY 2008-09, 28 departments had no change or decreases to their overall regular positions.

The CAO goes on to justify the long-standing practice of including Unfunded Positions in LAPD by claiming that it is . . . long-standing: *“unlike for all other departments, for decades the City has calculated the Police Department’s annual salary requirement through an analysis of estimated staffing at the beginning of the fiscal year, added funding for anticipated hires, and reduced funding to anticipated attrition. As a result, the authorized number of Police Department personnel greatly exceeds the number of personnel that the budget actually funds. In this unique case, the number of position authorities, from a budget calculation perspective, is meaningless.”* Lots of words are then expended on making the case that Police Officers are special, but the CAO then acknowledges that similar arguments apply to Fire as well. From a budgetary standpoint, however, the only substantive argument is that departments would hire staff that are unfunded and trigger overspending. Yet this is just a specter – departments can’t simply hire positions on their own. It would be easy and foolproof to ensure Personnel verifies a position is funded in that year’s budget. Clearly, despite the circular logic that PD is unique because it is unique, the primary thrust of the CAO’s “case” against unfunded positions (outside of Police) is that neither the Council nor departments can be trusted. The case rests on the assertion that only the permanent elimination of positions can ensure the City doesn’t overspend. Unfortunately for this claim, the CAO also emphasizes how easy it is to add positions back. These are contradictory claims: The City needs to eliminate these positions in order to stay solvent, but it would be easy to add them back if circumstances change. Either can be true – but it is illogical to claim both are. Given the City’s financial position, it will not be “easy” to add back positions. But it should be possible. The best path to doing so is including unfunded positions in the budget.

Cc: Matt Szabo, City Administrative Officer