Los Angeles faces insolvency

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The city of Los Angeles, California, the second largest in the US, faces the possibility of running out of cash in its general budget. In an announcement earlier this week, City Controller Wendy Greuel warned that, absent drastic measures, the fund will be more than $10 million in the red by May 5. He said the city would not be able to maintain basic services or meet payroll for its employees.

Greuel recommended that the city make every effort to tap into emergency reserves sooner rather than later to avert a complete shutdown. Even if the emergency funds are accessed, however, the city may face financial collapse soon after the end of the current fiscal year, according to Greuel. The city's emergency reserve fund is typically 5 percent of its overall budget, but may fall as low as $25 to $30 million by the end of June.

The announcement caused a frantic search by city officials to plug the upcoming deficit hole with temporary sources of revenue along with cost cutting and austerity measures.

The budget in Los Angeles, as with many cities and states throughout the country, has been hit hard by the economic crisis, following a long period of tax cuts for corporations and the wealthy. The city is responding by seeking to impose the burden of the crisis on the working class, by scaling back city services, attacking worker wages, and other measures.

Los Angeles had hoped to receive more than $73.5 million from the Los Angeles Department of Water and Power (DWP), which typically makes periodic payments to the city in lieu of taxes and franchise fees. The department's officials have thus far refused the request on the grounds that such a massive sum would exacerbate its own financial difficulties.

David Freeman, the utility's general manager, sent Greuel a letter on Monday declaring, “There is no surplus money to transfer at this time.” The city has since ordered an immediate financial audit of the agency.

Mayor Antonio Villaraigosa responded to the DWP's refusal by calling for the shutting down of most “non-essential” city services such as parks, libraries and street sweeping for two days each week.

On Thursday evening, however, the city announced that property tax revenues were found to be greater than anticipated. A report released on Friday nevertheless anticipated a budget gap of $222.4 million for this fiscal year. Only three days prior, the mayor had told reporters that “We have to act, and we have to act quickly. The facts don't lie.” As a result of the Thursday announcement, however, the mayor rescinded his call for a shutdown.

Villlaraigosa, however, warned that the city needed to have a backup plan in place “in the event that these assumptions don't bear out and we are, in fact, out of cash.” As of this writing, the mayor and city council are attempting to pass a rate hike of between 0.06 and 0.08 cents per kilowatt hour at the DWP, while asking that the department still deliver $20 million to the city to aid its finances.

Furthermore, LA’s continuing financial difficulties prompted Moody's Investor Services, one of the three largest credit rating agencies in the country, to downgrade its credit rating this week. Late last February, LA had increased its proposed city worker layoffs to 4,000 after Moody's downgraded its credit outlook, threatening an actual downgrade should the city not put into place “fundamental changes that will produce ongoing savings in the years ahead.”

Villaraigosa, a multi-millionaire and former official with the United Teachers of Los Angeles and American Federation of Government Employees unions, initially had pressured the city council to immediately implement the job cuts. However, the city council decided to postpone acting on the mayor's proposal for thirty days until the credit agency's February announcement prompted them to act immediately on the layoffs.

The next day after the council's decision, Villaraigosa announced the dissolution of the departments of Environmental Affairs and Human Services, beginning the actual layoff process.

For Moody's and the Wall Street investors that it represents, these measures were not sufficient, prompting the recent downgrade. The city's combined $500 million dollar deficit through fiscal year 2011-2012 has prompted further threats of job and wage cuts, which will still be called for regardless of the outcome of the current budget emergency.

The threat of mass layoffs is being used to blackmail workers into agreeing to wage cuts in the range of five to fifteen percent, along with other cuts in benefits. Villaraigosa said last February that "the number of layoffs is dependent on what our labor partners are willing to do to protect jobs for their coworkers."

The Los Angeles Coalition of City Unions, which includes local chapters of the SEIU, AFSCME, Teamsters and AFL-CIO, and which represents the majority of city workers, is currently operating under a contract that prohibited further layoffs and furloughs through June, in exchange for significant concessions in pay and benefits.

The coalition has not announced what it intends to do once the provisions expire. During every stage of the city's budget crisis, the unions have worked to isolate LA workers, helping to impose additional sacrifices. A statement released on the coalition's web site on April 6 states, "The coalition continues to work towards a real budget plan that will preserve services and pro-actively manage the fiscal crisis facing the City. We hope that City officials will join us in this endeavor."

The union completely agrees with the principle that concessions must be made, only raising a word in protest when they aren't given a seat at the table to implement them.

The author also recommends:

Los Angeles City Council approves 3,000 city worker layoffs
[20 February 2010]

Los Angeles sends layoff notices to 5,200 teachers
[9 March 2010]

Los Angeles city unions back concessions agreement
[22 October 2009]