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Villaraigosa delays payment of $100 million in personnel costs

Police overtime, unused sick time, agreed-upon wage hikes and an early retirement program are not going to be paid until after the mayor leaves office. Despite critics, the strategy is supported by most on the City Council.

By David Zahniser, Los Angeles Times

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To weather the Great Recession, Los Angeles Mayor Antonio Villaraigosa pushed thousands of employees out the door at City Hall in what he has described as one of the tougher choices on his watch.

But Villaraigosa has also relied on a second, less understood strategy for keeping the city in the black: postponing at least $100 million in personnel costs until after he leaves office, a Times analysis found.

Working in sync with the City Council, Villaraigosa has delayed paying for such obligations as police overtime, unused sick time, contractually agreed-upon wage hikes and an early retirement program that gave 2,400 employees full pensions five years ahead of schedule.

The next mayor, and possibly the one after that, will inherit the tab. And, as a result of another mayoral initiative, there could be less City Hall cash at that point to pay the bills, because Villaraigosa also wants to eliminate a business tax that generates $439 million annually.

Villaraigosa has portrayed his budget decisions as prudent, preserving crucial services in the midst of a major fiscal crisis. Matt Szabo, Villaraigosa's deputy chief of staff and in-house budget advisor, told The Times that his boss fully intends to "hand to his successors a city in the black."

But even some of Villaraigosa's allies are questioning whether the public has been misled about the health of the city's finances.

Investment banker Austin Beutner, a mayoral hopeful who previously served as Villaraigosa's "jobs czar," said putting off personnel costs today will leave the city with fewer dollars for services in coming years. He was more blunt three months ago, telling a room full of real estate executives that City Hall's budget practices resemble an infamous case of corporate financial abuse.

"That's Enron," he told the audience. "That's actually fraud, right?"

Beutner was referring specifically to one of the more glaring examples of the city's deferred employee obligations: thousands of hours of police overtime. To avoid paying cops time-and-a-half when they work extra hours, Villaraigosa and the council have been allowing officers to pile up steadily increasing amounts of credit in an "overtime bank."

Accrued overtime is frequently paid when an officer resigns or retires. That delay provides short-term budget relief, but is more expensive because the later payout is at the officer's final — and typically highest — compensation level.

When Villaraigosa took office in 2005, each officer could bank up to 96 hours of unpaid overtime, budget officials said. Under the latest police contract, the maximum is now 800 hours.

Los Angeles Police Department officers are continually asked to take time off as an alternative to cash overtime, said Maritta Aspen, a budget analyst in the City Administrative Office. Yet even with that aggressive cost-cutting strategy, the bank has grown by 675,000 overtime hours in the last two years alone.

By mid-November, officers were owed a total of 1.5 million hours of overtime, a sum worth $78 million, nearly double the amount in 2009.

Putting off overtime costs helped free up money for Villaraigosa's signature public safety initiative: expanding the size of the department by up to 1,000 officers. The growing overtime obligation is manageable because it will be paid out gradually as officers retire over the next 25 years, officials said.

But the bill could come due much sooner. In July 2014, one year after Villaraigosa leaves office, the cap on LAPD overtime is scheduled to drop precipitously, to just 150 hours per officer, according to language in the latest union contract. The next mayor will have to either compensate officers for any overtime in excess of the lower cap or make a decision to continue postponing payment.

Szabo dismissed the possibility of a huge payout in future years, saying the mayor expects Police Chief Charlie Beck to manage overtime by requiring officers with large backlogs of hours to take time off. Banked overtime, he said, should be viewed more like saved vacation time that can be used in the future.

In the near term, officers "are basically working those hours for free," Szabo added.

Mike Eveloff, a neighborhood activist who closely tracks the city budget, criticized the practice, saying, "The city is using comp time as a giant credit card."

The mayor and council also have put off paying thousands of hours of sick time by increasing the amounts employees can save. The tactic will cut outlays $16.7 million over the next three years, but the cost to future city administrations has not been calculated, officials said.

Together, the changes mean police officers can build up as much as 1,744 hours of deferred overtime and sick pay — three-fourths of their annual salary — which could be collected in a lump sum as they head out the door.

Szabo says the mayor deserves credit for tackling two big-ticket budget items: pensions and the size of the workforce. Employees contribute up to two-thirds more toward their retirement than when Villaraigosa started his first term, he said.

Villaraigosa cut the payroll of the general fund, which pays for basic services, to levels not seen since the administration of Mayor Tom Bradley. But the city will be paying for one tool he used to do that —

early retirement — for more than a decade.

Nearly two years ago, 2,400 workers were allowed to retire up to five years ahead of schedule. That action was designed to save $1 billion in payroll costs by 2024, according to city officials. But giving pensions and retiree healthcare ahead of schedule cost $355 million in the short term — too much for the city to absorb in a single budget year.

Villaraigosa and his allies persuaded pension board members to spread those costs over 15 years, boosting the total liability to $600 million, according to city records.

City workers agreed to cover part of the retirement program cost from their own paychecks. But the city also will pay millions each year from its fund for basic services, topping out at about $25 million in 2024, officials said. Those costs would not have been incurred if the city had laid off workers instead.

Szabo said the early retirement deal helped put the city on a "path to fiscal recovery." Laying off larger numbers of younger, lower-paid workers would have devastated frontline services, he said.

The next mayor also will have to deal with pay raises negotiated in recent years. Villaraigosa has postponed a trio of pay increases promised to roughly 20,000 civilian employees before the recession hit, a move Szabo said saved the city money.

The first increase of 1.75% goes into effect July 1, 2013, the next mayor's first day on the job. By July 2014, two more raises totaling 5.5% will be added. When all three are in place, the raises will cost the city $60 million annually, analysts said.

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