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WHERE DID THE MONEY GO?

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In fiscal year (FY) 1973 the budget of the city of Los Angeles was $627 million. By the year before Proposition 13 (FY 1978) it had grown to $1028 million. How was the additional $401 million spent? This was the question we addressed in a recent Rand study. The study was encouraged by Councilman Marvin Braude, Chairman of the Finance and Revenue Committee, who felt that an understanding of how the city's budget had grown prior to the passage of Proposition 13 would help him develop effective policy alternatives for the post-Proposition 13 world. As part of the study, we thought it would be illuminating to calculate how much it would cost in 1978 to provide the same services the city provided in 1973. From this we could figure out--we thought--how much was being spent on services that had recently been added.

We used the city's adopted budgets and information on salaries and positions provided to us by the City Administrative Officer, and found, surprisingly, that the city would not be able to save money by "cutting back" to the FY 1973 level of basic services. The data indicate that over the five years there had actually been a slight decline in the number of employees assigned to traditional city services (e.g., fire, police, and public works, which includes sanitation).

So, where did the additional $401 million go? Three-fourths of the increase ($300 million) was due to inflation. Growth in employee compensation (salary plus benefits) contributed heavily to the inflationary increase, but we found no evidence that this increase was excessive. The overall compensation of city workers rose at just about the same rate as the cost of living or as the compensation of similar employees in the private sector. (But we didn't examine the level of compensation in 1973 to see whether it was higher or lower than for similar employees.)

The bulk of the remaining increase in the budget ($45 million) was due to a shift in the mix of employees. While the departments providing traditional city services had about the same number of employees in FY 1973 and FY 1978, most of the departments providing "overhead" services (e.g., City Council, City Clerk, Mayor, City Attorney, Treasurer, and Controller) had substantial increases. (The number of City Council employees increased by 121 percent; the number of persons employed by the City Clerk increased by 69 percent.) Even within departments providing traditional services, there was an upward shift from low paid direct service positions toward higher paid administrative and support positions. Thus, the portion of the budget devoted to overhead activities increased by 20 percent between FY 1973 and FY 1978.

The overhead employees provide some direct services to the public and presumably increase the efficiency of direct service providers, so we are not sure of the implications of the upward shift. Some of the increase in the size of the overhead departments is attributable to a movement toward the corporate model of "good government" (more sophisticated budgeting, staff activities, and managerial functions). Many of the overhead activities have been undertaken by the city in response to federal and state mandates (e.g., new regulations and reporting requirements, such as environmental impact statements). These activities will be hard to cut back in response to reduced revenues.

Our analysis did not reveal any simple means for the city to adjust to a reduction in revenue. Rather, it highlighted the difficulties in achieving any <u>substantial</u> cutbacks without severe reductions in levels of traditional services to the public. Such a development would likely focus attention on the burgeoning role of the federal government in the affairs of cities, since federally funded programs are relatively immune to reductions in state or local revenue, and federally mandated activities are hard to cut, even if the federal government provides little or no funding for them. This situation raises a possible paradox if city revenues decline: the very functions that the public might want to eliminate may be required to remain, while the most desired services decrease in quantity and quality.

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A report on the complete study, entitled Growth in Municipal Expenditures: A Case Study of Los Angeles, is available from the Publications Department of The Rand Corporation, 1700 Main Street, Santa Monica, California 90406.