



**Meeting Report for April 19, 2010
by Richard Bort**

Valley VOTE Board members, community leaders, and concerned citizens convened on April 19, 2010 at Galpin Ford to hear featured speakers Ron Kaye and Alex bring us up to date on some of the city's political and financial issues.



Ron Kaye

Ron Kaye is the former editor of the Los Angeles Daily News where he spent 23 years helping to make the newspaper the voice of the San Fernando Valley and fighting for a city government that serves the people and not special interests. He is now committed to carrying on his crusade for a greater Los Angeles as an ordinary citizen. He firmly believes that Informed, involved and organized, the people can change L.A. He operates a very active blog, at www.RonKayeLA.com and a community-based online nonprofit newspaper, www.OurLA.org, that brings together the content of local websites and bloggers, professional journalists, and experts into a single comprehensive LA news site.

After listening to the several committee reports before he spoke, Ron Kaye began his remarks by expressing his admiration for the Valley VOTE leaders. He said, "You guys are great! Vic Viereck thinks apartment owners will raise rents. Jack Humphreville thinks our DWP problems are solved. Bart Reed thinks we'll build a subway through Bel Air. And Joe Vitti thinks we'll have more nuclear power. You are a group of optimists!"

On a more serious note, the main thrust of Kaye's remarks was that "we, the people" have an opportunity to take back the reins of local government over the next several years. He pointed out that at least seven City Council seats and the mayor will be termed out of office in the next three years, and Kaye sees this as a rare opportunity to regain control.

"There are no controls unless the people have control," he asserted. "There is a point at which rebellion is the only solution to powerlessness."

To capitalize on this opportunity, Kaye has formed a campaign he calls "Clean Sweep," which has four guiding principles:

1. **Clean up City Hall and fix the budget.** We will be hit with a major onslaught of fees and taxes over the next year, he predicted, but that only pastes a band aid over the budget deficit – it's not a long-term solution to the structural problem.

2. City workers need to step back, and the pension plan needs to be fixed. The mayor said he was going to fire some 4,000 people, but ultimately only 103 people received pink slips, while thousands were transferred to the DWP and other departments not funded by the General Fund.

3. Core services – police, fire, sanitation – need to be emphasized, while non-core services and their related costs need to be eliminated.

4. Power-sharing with the people, through the neighborhood councils, must happen.

The City Council has blocked NCs whenever possible, and this needs to be reversed, Kaye said. The “system” doesn’t want to respect the thousands of citizens who try to be active in the NCs. He went on, “Every council member should refuse to see any [promoter] until they run their proposal past the affected neighborhood council.”

The “Clean Sweep” campaign will field a slate of City Council candidates who will be responsive to the people. Several incumbents are beatable, he noted. “The moment of change is at hand,” Kaye said. “We are in a profound crisis. Kaye charged that the council members are “scared, and that’s why they stood up to the DWP” on the recent rate hike request. “But,” he said, “the DWP wants your money and they will get it.” As to our options, Kaye thought that a system of boroughs would work to devolve power back to the people. But secession probably will never work because the “corporation” that is L.A., not the Valley, owns the infrastructure assets (i.e., streets, fire houses, etc.). The third option, bankruptcy, is out of the question politically because that would show the incumbents as having abdicated their responsibility, which would be the death knell for their political careers.

For more on Ron Kaye’s viewpoints, see: www.OurLA.org and www.RonKayeLA.com.

See also www.CityWatchLA.com for other news and view on our City of Angels.

Alex Rubalcava

Alex Rubalcava is President of Rubalcava Capital Management, an investment advisory firm located in West Los Angeles. Mr. Rubalcava is an expert in Los Angeles County pension issues who has spent years analyzing the funding mechanisms, administration, and actuarial assumptions of the public pension system. Five years ago he publicly forecasted the current pension crisis. Mr. Rubalcava has advised LA City and County officials, state lawmakers, and others on the pension issues.

In the face of abundant storm warnings, Mr. Rubalcava explained the fiscal dynamics underlying the City’s under funded public employee pension plans. About five years ago, the City of San Diego ran into trouble with its pension plan, and that made him realize, he said, that L.A.’s pension plans were a ticking time bomb. He began warning everyone who would listen that the city’s pension plans would soon collapse unless something were done to correct the system.

Rubalcava described the problem thusly: A public employees’ pension fund is a giant pool of dollars, accumulated from employee contributions, taxpayer contributions, and investment income. This pool must pay for post-employment pensions and healthcare benefits.

L.A.’s city employees contribute 6% of their pay, and that amount is fixed by contract. It does not grow when asset values decline, such as during the past 2-3 years. Viewed from another angle, the city’s contribution ranges from 30% to as much as 70% of employees’ compensation (the latter for police and fire), depending on the particular union contract.

Moreover, for eons public employee pension plans have assumed that this pool would yield an 8% annual return, but that assumption is too high to be sustainable over a long period of time. Over the last decade, the city’s main pension plan, “LACERS,” has earned only 3.39%, and the Fire and Police Pension Plan has returned an even lower 2.9%. When the returns are less than 8%, as they have been over the long run, the taxpayers are obligated to make up the difference when it comes time to pay post-employment costs. Consequently, the city’s pension fund contributions have skyrocketed from \$250 million in 2002 to \$1 billion in 2009, to a projected \$3.5 billion in 2014. That is more than half the current city budget, Rubalcava noted, and it is completely unsustainable without huge tax increases and service cuts.

“Until we solve the pension issue, we taxpayers won’t be able to have what we want from city government,” Rubalcava warned.

Having laid out the problem, Rubalcava moved to describe what he called a “logical and fair reform plan.” The current plans are called “defined benefit” plans because the post-employment benefits are pre-defined. Defined benefit plans have bankrupted many industries – most recently the automotive industry – and they are heading

toward bankrupting governments as well.

The alternative is a “defined contribution” plan, where the post-employment benefits are limited to whatever the plan’s assets can support. Annual contributions are fixed or tied to employee compensation. Perhaps the most common and familiar type of defined contribution plan is the 401(k) plan that many private sector employers offer to their employees.

The truly logical and fair reform plan for public employee pensions would be to introduce a defined contribution plan for newly hired employees while keeping in place the existing defined benefit plans for current employees, and that is beginning to happen in some jurisdictions, he said.

He noted that to date no government entity has succeeded in converting a public defined benefit plan to a defined contribution plan, and he is not advocating that. But Rubalcava urged citizens to put pressure on elected officials to say “No!” to the unions’ demands for more pension benefits.

Interestingly, Rubalcava disagreed with Ron Kaye on the issue of municipal bankruptcy. Where Kaye said that the option of bankruptcy for the city was out of the question, Alex Rubalcava expressed the belief that bankruptcy will be necessary sometime in the next three years in order to restructure the pension plans for current employees and retirees.

For more on the public pension crisis and proposed reforms, for local, statewide, and private pensions, Rubalcava urged us to visit www.PensionTsunami.com

Valley VOTE Committee Reports and Announcements

Nuclear Power Report – Joe Vitti

In his continuing series on the value of nuclear power, Joe discussed the “Power Content Label,” which shows the sources of the power that the DWP sells to its customers. This label is mailed to customers and it is required by state law. The label details where the power has come from, but it fails to show expectations for the future. The DWP needs to provide ratepayers with its targets for future Power Content Labels together with the capital and operating costs related to the changes, notably the Renewable sources of power i.e. Biomass, Geothermal, Small Hydro, Solar, and Wind. These Renewable sources are not to be hidden in the Energy Cost Adjustment Factor (ECAAF) The ratepayers in the City of Los Angeles are entitled to a full accounting of why their DWP bill has been significantly increasing over the last few years. Providing this information, including the cost of all future sources of power in a clear understandable way will help.

Joe pointed out that nuclear power can be fully cost-competitive with coal, yet the DWP does not contemplate increasing the amount of nuclear power in its power mix. Two new factors influence the cost of nuclear power: Nuclear plants now are being relicensed for a period of up to 60 years, which allows more than ample time to depreciate and amortize the plant’s capital costs at a reasonable annual charge. Secondly, the federal government is now issuing guarantees of the financing necessary to build nuclear plants. These developments contribute to what Joe sees as a strong case for considering the expansion of two more reactors at Palo Verde to bring that plant up to its full design capacity and raising DWP’s “take” to about 15% of its power content. Palo Verde was originally designed for 5 reactors but only 3 were built. Site selection and transmission line issues are significantly reduced for the expansion to 5 reactors. This additional power would replace coal at a similar cost per megawatt, keeping our rates low also and help meet the goal of carbon reduction.

The following is the

LA DWP's 2009 Power Content Label.

| Energy Resources | LADWP Power (projected) |
|----------------------------|----------------------------|
| Eligible Renewable | 14% |
| Biomass & waste | 1% |
| Geothermal | 2% |
| Small hydroelectric | 5% |
| Solar | < 1% |
| Wind | 6% |
| Coal | 44% |
| Large Hydroelectric | 7% |
| Natural Gas | 26% |
| Nuclear | 9% |

| | |
|--------------|-------------|
| Other | <1% |
| TOTAL | 100% |

Nuclear Power Programs in Asia

China plans to have **60GWe** of installed nuclear capacity by 2020 looks to be on track, with **18** reactors now under construction. **60GWe** is the equivalent of **100 - 1000 MWE plants**. **India** - GE Hitachi has also signed agreements with two state-owned Indian companies to collaborate on building ABWRs in the country. This will help towards meeting India's ambitious goal to produce **60GWe** from nuclear power by 2032. **Japan** - Tokyo Electric Power Company is planning for nuclear to have a **26% stake** in generating capacity by end of 2018 fiscal year. That plan would rely on four units currently under construction coming online on time. **Korea** -As part of a long-term plan to increase the share of nuclear in the generation mix (**48%** by 2022, up from 34% in 2009), the government has announced plans to spend KRW37 trillion (\$28.5 billion) building including 12 more nuclear power plants.

L.A. Department of Water and Power – Jack Humphreville

Jack Humphreville summarized the issues and tentative resolution of the recent flap over electric rates and the \$73 million DWP transfer to the city's General Fund.

Some good news: As part of the settlement of the dogfight among the Mayor, City Council, and DWP over electric rates, the City Council is moving ahead with the formation of the Ratepayers Advocate and an Inspector General. In addition, the Mayor has appointed his Job Czar and ex-investment banker, Austin Beutner, as the Interim General Manager, replacing David Freeman.

Unfortunately, DWP has over committed itself to purchase renewable energy and feels forced to increase rates or suffer a downgrade in its "AA-" bond rating. In fact, the City's credit rating was indeed downgraded on the DWP's \$720 million bond offering. This will cost the DWP tens of millions of dollars in extra interest, and the flap highlights the dysfunctional nature of City Hall. Of course, the pawn in the battle was the expected – and desperately needed – transfer of \$73 million from the DWP to the city's General Fund, not to mention the ratepayers.

The settlement also calls for reconstitution of the Energy Cost Adjustment Factor to consist solely of costs related to volatile fuel prices, and it would not be capped. Costs of the programs for renewable energy, demand side management, and energy efficiency would be shown separately in the rate structure and would be subject to separate review and approval by the City Council.

Among the fallout of this massive exhibition of governmental dysfunction, the City Council is pursuing five "Transparency Motions," proposed by Greig Smith, to change the City Charter to (among other things) give the City Council the right to review the DWP budget and any rate increases, remove the General Manager and any Commissioner with a two-thirds vote, and have a majority of the five-member Board of Commissioners appointed by the City Council (2) and the Neighborhood Councils (1).

Housing – Vic Viereck

On Wednesday, April 14, 2010 Los Angeles City Councilman Richard Alarcon called for a one-year moratorium on rent increases for rent controlled apartments. In spite of an abundance of vacant apartments and declining rents, **the Councilman wants to impose a 0% one year limit on rent increases** for Los Angeles' rent controlled apartments. During a period of declining rents the market rules but, in spite of the annual escalation of operating costs (particularly DWP), supposed tenant advocates want restrictions that would prevent owners (during an economic recovery) from even just returning to previous rent levels. With that kind of city treatment, who would want to become an apartment owner? This is not a business friendly city.

Transportation – Bart Reed

Bart raised an interesting proposal, to construct a "Subway to the San Fernando Valley" from the Westside of L.A. Looking at a map for the proposal, it would involve a tunnel through the Sepulveda Pass running in a straight line for 6 miles at only a 1% grade, from around UCLA to Ventura Blvd. The UCLA end would connect to both the (proposed) extension of the "Mid-Wilshire Line" and the "Exposition Line," both of which would terminate in Santa Monica.

Reed proposed that the Sepulveda Pass project, which is included in the list of Measure R proposed projects, be funded by immediately marshaling Measure R funds together with other bonded debt, and federal funds. Reed urged that this project should be accelerated because construction costs are presently depressed, enabling us to build this subway now at a lower cost than was contemplated in Measure R. In support of this argument, he cited the current bids for the Orange Line busway expansion northward to Chatsworth, which came in at some \$25 million less than expected.

Next Meeting -Valley VOTE will meet again on Monday May 19,2010 at Galpin Ford at 6:30PM.

Valley VOTE is a diverse coalition of San Fernando Valley residents, business people, educators, community activists, and organizations, committed to exploring and fostering the implementation of programs that empower the people of the San Fernando Valley and the City of Los Angeles, to improve local governance, education and public participation on policy matters.

For additional information about Valley VOTE, for an upcoming meeting agenda, or for previous meeting reports and press releases, we encourage you to go to the Valley VOTE web site: www.ValleyVote.org. Please forward this e-mail to interested individuals and organizations. If you would like to be removed from our distribution list please send a e-mail to javittisr@cs.com.