

VOLUME 102 NUMBER 1 | SPRING 2013

National Civic Review

MAKING CITIZEN DEMOCRACY WORK

In This Issue

FISCAL SUSTAINABILITY AND LOCAL GOVERNMENTS:
FOUR SOUTHERN CALIFORNIA CASE INVESTIGATIONS

MARK PISANO, RICHARD F. CALLAHAN

County of San Bernardino

GLORIA RUBIO-CORTÉS

El Rancho Unified School District

MICHAEL MCGRATH

Cities of Santa Ana and South Gate

SARA MCALISTER, KEITH C. CATONE

Real Parent Power: Relational Organizing for
Sustainable School Reform

SHEILA A. MARTIN, ELIZABETH MOREHEAD

Regional Indicators as Civic Governance:
Using Measurement to Identify and Act
Upon Community Priorities

Fiscal Sustainability Case Investigation

City of South Gate

BY MICHAEL MCGRATH

South Gate is a community of about 98,434 in the Hub Cities region of southeast Los Angeles County. With an aging infrastructure, a sagging economy, declining or stagnating revenue sources, and growing employee costs, the city has a structural deficit that local leaders and managers have been unable to eliminate despite years of austerity and cost cutting. Many other Southern California cities are facing similar challenges, but in the case of South Gate, the city's dire financial condition predated the Great Recession of 2008. During the early 2000s, South Gate government entered a period of severe dysfunction, mismanagement, and corruption. In 2003, the community mounted a successful effort to recall the corrupt officials, but not before the city had incurred losses in the tens of millions. Consequently, South Gate entered the 2008 recession weakened financially and organizationally by the earlier crisis.

South Gate is a general law city, which means that it doesn't have a local charter. As mandated by state law (California Government Code section 36501–36525), its governing structure consists of a five-member city council elected at large, a mayor selected from the council (on a rotational basis), an elected city treasury and city clerk, and an appointed city manager and police chief. The city relies on Los Angeles County for fire services, so there is no fire chief. The population is predominantly Hispanic, many first- or second-generation Mexican immigrants. Household incomes are lower and the unemployment rate higher than statewide averages. Voter turnouts in city elections tend to be quite low. In 2012, only about 7 percent of registered voters cast ballots for the three city council positions. This level of voter engagement compares poorly with the other communities researched for case studies on fiscal sustainability in the past two years. In Santa Ana, for example, about 32 percent voted for the top city council candidate in 2010; in Brea, about 27.9 percent of registered voters participated in 2012. In Long Beach, about 21 percent voted for council races in 2012. Santa Ana and Brea, it might be noted, have municipal elections in November on the

same ballot with general elections. South Gate's municipal elections are held in March.

History

Incorporated in 1923, the city grew rapidly in the 1930s, 1940s, and 1950s thanks to its location as a hub for transportation and manufacturing. During the 1960s, South Gate's Firestone Boulevard was well known throughout the region for its abundance of car lots, most famously that of Cal Worthington, who appeared on television commercials wearing a cowboy hat and with a variety of exotic animals. During those years, the city was mostly a white working-class community with a pattern of racially segregated housing and schools. In the late 1970s and early 1980s, Southern California's smokestack cities went into a period of decline, in part due to increased air quality standards imposed in the Los Angeles basin. Job losses and racial tension after the riots in nearby Watts combined to set off a period of white flight. Between the 1970s and the 1990s, the demographics of South Gate flipped from a nearly all-white population to one that was 72 percent Hispanic (today it is about 94.8 percent Hispanic). "Signs of community unrest and deterioration soon became evident," noted city officials in their 1990 application for an All-America City Award. "As many of the Caucasian families began to exit the middle-class owner-occupied sections of town, those sections became increasingly renter-occupied. Graffiti appeared as gang activities increased. A period of general malaise swept through major sections of the city. Apathy had taken its toll and blight seemed to have landed in these areas to stay."

During the 1990s, South Gate city government had a reputation for sound management. In fact, the city won accolades for its efforts to promote immigrant integration and economic development, receiving the All-America City Award in 1990 and a Helen Putnam Award for excellence in 2002. In 1997, however, an ambitious local politician named Albert Robles was elected city treasurer. A former mayor and aide to an assemblyman, Robles

began backing city council candidates. With two supporters on the five-member council, he organized a recall effort against Councilman Bill DeWitt, a respected local businessman. Once Robles had support of the council majority, he was able to control much of the city's administrative structure. Competent, professional managers were fired and replaced with less qualified candidates. Written civil service exams were replaced with oral interviews. A new "Community Services" Department with one hundred staff members was created without funds to pay for its budget. The city hired a slew of attorneys, paying out more than \$10 million in legal fees over a period of eighteen months, an astounding figure for a city with an annual budget of only \$28 million. Friends and relatives of the treasurer were used as intermediaries in a variety of alleged kick-back schemes involving tens of millions of dollars.

In an effort to get around a cap on their salaries, the city council majority created a new entity called the Community Development Corporation, awarding themselves monthly payments of \$1,600 each to serve as directors. As opposition to the treasurer and council majority grew, city council meetings became more and more contentious. The city's civic culture had become poisonous. One critic of the Robles regime had his business firebombed. Rival candidates for political office were falsely accused of heinous crimes in anonymous mailers. One city council member was shot in the head after a meeting, although the assailant and the reasons for the attack were never identified. The behavior of Robles and his confederates became so erratic that state and county officials began to investigate. Simultaneously, a coalition of civic leaders, members of the police union, clergy, and community activists mounted a successful recall campaign against the corrupt officials. Today, Albert Robles is serving a ten-year sentence in a federal penitentiary for bribery and money laundering, among other charges.

Strategies for Achieving Fiscal Balance

Faced with a daunting financial crisis and a de-professionalized management structure, the newly elected city council majority turned to the League of California Cities in 2003 for guidance. The league agreed to subcontract out the city manager position to Gary Milliman, a former city manager of

Fort Bragg, California, and the Southern California director of the state league's grassroots, intergovernmental affairs lobbying program. Milliman was familiar with the area, having grown up in nearby Bell Gardens, where he was once the deputy city manager, and having served on the Maywood City Council in the early 1970s. The city had sufficient cash to make payroll and fund typical expenses for about four months. Milliman reorganized the city administration, reducing seven departments to five, renegotiated a proposed development deal for a mixed-use housing project, removed the remaining Robles loyalists from management positions, and ended a number of questionable contracts, including a \$25,000-per-month retainer for public relations, an annual retainer of \$96,000 for legislative analysis and advocacy with an unregistered lobbyist, and an agreement with a construction management firm that was providing "internal affairs" investigations for the police department. The city manager laid off every assistant department head and every deputy city manager, renegotiated labor agreements, and negotiated a deal with the California Public Employees' Retirement System (CalPERS) to pay off over a several-year time frame a 45 percent increase in the city's contribution rate for its public employee retirement fund. The city went to court and negotiated to recover some of the money that had gone to individuals and companies associated with Robles, a sum of about \$14 million, or nearly half of the estimated loss. The city raised water fees and proposed a 1 percent increase in the local sales tax. In 2006, the city closed a general fund gap of about \$1.2 million with a onetime payment from the redevelopment agency fund. These measures helped the city weather the immediate crisis and achieve a level of financial stability.

Reducing Costs

Gary Milliman was a small-town city manager, and he brought with him an attitude of fiscal conservatism and "doing more with less." In a memo to city staff in 2003, he laid out his strategy. "The city council is extremely concerned about the fiscal condition of the city, and this will be the focus of my immediate attention and your top priority. You need to take actions today, and continue until further notice, to reduce expenditures. This does not mean that we will stop providing basic services or meeting basic financial obligations. But it does mean that you

need to immediately curtail any non-essential expenditures and it means that you need to keep personnel costs to a minimum.” For the most part, Milliman and his successors have kept to this strategy of keeping staffing costs to a minimum. The exception was in 2005, when the Police Management and Police Officers associations negotiated new three-year contracts. Both groups were awarded a 9 percent salary increase for each year of the effective contract in addition to a Cost-of-Living Adjustment of up to four years. This increase, designed to bring local salaries and benefits in line with other communities in the region, was the main reason for a spike in general fund expenditures of about 19 percent in 2007–2008. In 2009, as the local economy continued to erode, the city asked all employees to accept a salary cut of about 10 percent. The next year, an early retirement incentive program was offered to reduce staff size. Vacant positions were eliminated, and there were city layoffs. In 2010, the city continued to reduce staff levels by delaying hires to refill vacant positions as well as by reducing maintenance and operating costs. In 2012, city officials balanced the budget by reducing staff, maintenance, and operating costs and delaying capital improvements. The loss of the city’s redevelopment agency because of state action in 2012 was the main cause of the year’s structural deficit of about \$1.6 million. The unemployment rates fell by 1 percentage point, from 14 percent to 13 percent, and sales tax revenue rebounded by about 8.5 percent.

Like other California cities, South Gate is facing a growing challenge with pension system and retirement costs. Thanks to poor returns in the CalPERS investment funds, South Gate retirement costs increased by \$800,000 in 2011 and an estimated \$600,000 to \$700,000 in 2012. Health insurance costs increased by \$300,000 in 2011. Cities such as Long Beach have negotiated changes in the pension formulas with employee unions. South Gate has not done so, but California governor Jerry Brown signed a bill in September 2012 to reform the state pension program that should save money for local governments in the future.

Increasing Revenues

As the annual budget note from the city manager in 2007–2008 suggested, “Reducing expenditures will

not solve the problem. Over the years the City has had to pare down costs in an effort to balance the budget. This is no longer achievable without significantly reducing staffing levels and programs, which has had an unfavorable impact on the citizens of this Community. In order to avoid these extreme measures once again, the City must enact revenue generating measures within the next two years if the City is to continue to perform at its current level” (p. 8). City officials successfully pushed for a local sales tax increase of 1 percent, a “Vital City Services” measure on the ballot that passed in 2008. “There were dozens of town hall meetings, meetings with local community groups to help them understand why we were putting this on the ballot and what trade-offs needed to be made,” noted one manager. “We would give our presentations and then it was open mike so everybody would come up and ask questions.” The tax increase was aimed mostly at covering the costs of police services. It was hoped that this increase would be sufficient to close the city’s approximately \$7 million structural deficit, but as city manager Ronald Bates stated in his budget note in August of 2009:

[A]ny potential gains in revenue were quickly offset by the economic crash at the national level, resulting in an estimated General Fund deficit initially projected to be \$4.7 million for 2009–10. To achieve a balanced budget, departments were first asked to cut as much as possible from their operating and maintenance budgets without significantly impacting services. Additionally, all budgeted but vacant positions were left unfunded. (6)

Organizational Structure Change

The city changed its departmental structure dramatically in 2003 to cope with the crisis of that period, but there have been few structural innovations or major changes in service delivery since that time. One manager mentioned an example of an innovation that was rejected by the council. South Gate has a large park that is used by many people who live outside the city. Staff members came up with an idea to put parking meters around the park so users could share in the cost of operating and maintaining the facility. Residents could be given permits

that allowed them to park near the parking without paying the meters. “The council had asked for innovative ideas about how we could balance the budget and find additional revenues, and I felt like we should move forward. But the public showed up and council members said people should be able to go to parks without further costs. We’re a low-income community and we don’t need to further burden our residents, although our goal was not to burden the local residents but to take advantage of those that weren’t local.”

Economic Development

South Gate has one asset that some other urban cities do not have: land that can be developed for commercial uses. Since the late 1980s, South Gate officials have focused on strategies that would use former industrial sites to promote commercial businesses and light manufacturing. In 1986, the South Gate became a state enterprise zone, using state and local tax incentives to lure new businesses to economically depressed areas. The city joined with five other hub cities to form a consortium to address unemployment and job training using funds from the federal Job Training Partnership Act. Several thousand jobs were created during the period between the mid-1980s and 1990. Since 2007, the city has been trying to develop a major shopping area and entertainment center on the site of a defunct pipe factory at the corner of Firestone and Atlantic Avenues. The project had to be put on hold after the economic crash in 2008 because of the difficulty in obtaining financing.

In 2012, the city authorized expenditures of about \$12.7 million for off-site capital improvements to support development of the Azalea shopping center, an \$80 million project city officials hope will boost local sales taxes by about \$2.5 million. If completed, the 30,000-acre project will be one of the first examples of a city financing a major development deal since the state eliminated local redevelopment agencies and tax increment financing in 2012. “We’re probably one of the first ones in California that is stepping outside of the box and committing some general fund dollars in this investment because of what we feel the payoff will be,” said one public manager. “I think it’s a big step,” said another public manager. “Not the panacea for long-term fiscal conditions, but a significant step. Our path to

sustainability over the long haul is really growth on the economic development front.”

Continuity of Leadership

Since 2006, the city has had four different city managers, including two interims. Gary Milliman left in 2007 and moved to Oregon. Later, Ron Bates, who had served as city manager in La Habra Heights and Buena Park and as assistant city manager in Anaheim, was appointed to the job. A former president of the Southern California Association of Governments, Bates has a Ph.D. in public administration from the University of Southern California and was known as a fix-it manager who could turn around financially troubled cities. However, city council members felt they could not meet his salary request, so he left after three years to become city manager of Pico Rivera. In 2011, the city hired retired police chief George Troxcil as interim manager. Troxcil, who implemented the city’s successful community policing strategy, was a trusted leader in the community. He served as interim city manager until recently, when the council voted to hire a new chief executive, Mike Flad, at the time the city manager of Burbank.

Compared to the turnover of appointed managers, the city’s elected leadership has been much more stable since the recall of Robles in 2003. Mayor Bill DeWitt has served on and off the council since the 1980s and was part of the community coalition that rose up against the Robles faction, as was Councilman Henry Gonzales, a former United Auto Workers Union leader who was the first Latino to be elected to the council back in the early 1980s. Vice Mayor Gil Hurtado has served since 2005; Councilwoman Maria Davila has served since 2003. Councilmember Jorge Morales was elected in 2011. One former public manager described the council as very “stable, good, conscientious and wanting to do the the right thing.” Another manager said the council was “very aware [of the city’s fiscal condition] and they allow us to act upon it. But it is hard to impose cuts. They are asking us to deal with it in a manner that minimizes the impact to services and employees as best we can. They are very aware of the new normal, very conscious of the fact that decisions of the past won’t be the decisions of the future. The stress is having them hear from their constituents. The community thinks they deserve a certain level of

service and with the resources [available], it's tough to meet that level."

Public Participation

Several of the public managers and elected officials interviewed noted the difficulty of engaging residents, many of whom are immigrants working long hours to make ends meet, who have little free time to give to public affairs and may be unfamiliar with the workings of local governments in the United States. This generalization could as well apply to other hub cities that have been in the news for public corruption cases in recent years. "It [the Robles affair] was the beginning of a series of corruption scandals in southeastern Los Angeles County communities, all of which had similar demographics," noted one local journalist. "They were mostly Mexican immigrants who had lived here for a while but weren't until then very politically active. This was the precursor of what later happened in Bell, Bell Gardens, and Cudahy. Each had different story lines, but the issues were all the same."

In nearby Bell, for example, the scene of a recent public corruption scandal, ballot measures to give local officials exorbitantly high salaries were passed in an election in which only 390 people voted—a turnout rate of about 2 percent of the voting-age population. "That was the lowest turnout for any election in southeast Los Angeles County the last six years," noted two reporters in a 2010 *Los Angeles Times* article, "but not by much. For last year's South Gate City Council election, 3 percent of the voting-age population turned out. And a 2007 recall election in Montebello drew 5 percent of the voting-age population." The *Times* article noted that many "cities in the southeastern part of the county have large populations of immigrants who are not citizens and cannot vote, reducing the potential voter pool, but turnouts are more robust for balloting held on regular election days."

A number of factors may be responsible for the lack of engagement with or participation in local political issues. One frequently mentioned factor is the decline of daily newspapers. The community used to have its own twice-weekly newspaper, the *South Gate Press*, which covered local affairs. Coverage of the region by the major dailies has also declined. According to journalist Sam Quinones, the *Los*

Angeles Times and *Long Beach Press Telegram* "devoted only one reporter each to all the suburbs of southeast Los Angeles" (p. 73). Even *La Opinion*, the nation's largest Spanish daily, "rarely sent a reporter to the area" after 2000. As one former local manager put it, "Because of the low level of citizen involvement, no one is looking. There used to be a local daily with a reporter covering each of those cities, and that's gone. Back in the day, people on the city council were generated from the Rotary and they were local business leaders. These social institutions no longer exist."

In his book *Antonio's Gun and Delfino's Dream*, Quinones describes the efforts of the community to rid the city of the Robles regime. He attributes the success of this grassroots recall movement to the influence of two local organizations, Community in Action and Padres Unidos. Community in Action was founded by Police Chief George Troxkil in 1997 to engage the public in the city's community-based policing program. Through Community in Action, police and residents worked together to prevent crime and improve local neighborhoods. Police acted as conduits to introduce members of the community to other city agencies such as the public works department, street repair, and parks and recreation. Many of the activists in the organization were immigrants who had little or no positive interaction with local authorities in their countries of origin. As one local activist explained to Quinones:

The most important thing was that they taught us how the police department works and how city hall works. We didn't know. It opened our eyes, showed us who to go to. We got to know the police department from the chief down. We know the officers. They know me. I know most of the folks in public works. Our police department is the best around. Our police department came together with us, and we did so with them. (101)

Similarly, the group Padres Unidos involved local parents in efforts to improve the schools and, by doing so, familiarized the largely immigrant membership with the workings of local government and the Los Angeles Unified School District. Both organizations, Quinones argues, gave South Gate residents a sense that they could change things and

gave them the contacts and knowledge they would need to do so. The connection with police, however, was particularly important as the police union began to actively oppose the Robles administration. (The disruption of the department and odd practices by Robles risked the possibility of decertification by the state Police Officers Standards and Training board. Also, Robles was considering disbanding the department and outsourcing police services to the Los Angeles County Sheriff's Department.) Opponents of Robles began to organize coffee klatches to alert more residents to the problems and explain to them the workings of the city. Larger crowds began to attend city council meetings. The coalition included parents, police, local clergy, and business leaders among others, a multiracial group that brought together the old-timers and newcomers alike. On Election Day, the community voted to recall Robles and his three supporters on the council by an eight-to-one margin.

Conclusion

Local leaders have struggled to overcome the city's difficult recent history and its tough fiscal and economic challenges, but it would be something of an exaggeration to suggest that they have made significant inroads in adopting the strategic and organizational changes needed to achieve an ethos of fiscal sustainability. The general approach to budgeting and fiscal issues is the conventional one of cost cutting, modest tax increases, and hopes for commercial development. The reduction of staff is taking a toll on the city, according to one public manager. "We have shot ourselves in the foot in several areas, where we have a director but no second in command. In community development, we have a director but no one two levels below. We just brought back an engineer to help on that side because we were doing a lot of roadwork. We're still working until eight and nine at night keeping up with e-mails. We have a council that is probably more engaged with department heads and staff than in most cities. That's a good thing but can be a very challenging thing when you start to reduce some of the services and they don't get that picture."

The city has failed to build up an adequate financial reserve fund, and it continues to balance the bud-

get with a structural deficit on a year-to-year basis. The city, furthermore, is facing a serious problem of underfunded infrastructure. Mike Flad, the incoming city manager, recently told a reporter for the online publication *SouthGate-Lynwood Patch* that "South Gate like every other city in California has a huge infrastructure deficit. [The city is] spending more on maintenance than [it] should because [it has] not been investing enough and could not financially." Still, local officials have acted responsibly to address financial challenges as they have arisen. Considering what was going on in the period between 2000 and 2003, the city has made obvious progress. If the shopping district and other economic development projects succeed, South Gate will be in even better shape, though the city will continue to face deficits and cutbacks unless and until the new revenue comes in, which won't be until late 2013 at the earliest. "We have a bright future ahead of us barring a double-dip recession," said one public manager. "The things outside of our control are going to hurt us. The things within our control, we've done a good job of managing. We're crossing our fingers, even if we have a slow growth economy for the next couple of years, we will be okay if we don't hit another recession."

References

- City of South Gate, California Annual Budget, Fiscal Year 2007–2008. Accessed February 12, 2013. <http://www.sogate.org/download/index.cfm/fuseaction/download/cid/881/>.
- City of South Gate, California Annual Budget, Fiscal Year 2009–2010. <http://www.sogate.org/download/index.cfm/fuseaction/download/cid/1357/>.
- Garrison, J., and A. Sewell. 2010. "Casting a Vote for Chao." *Los Angeles Times*, October 12. <http://articles.latimes.com/2010/oct/17/local/la-me-voting-patterns-20101017>.
- Lopes de Haro, A. 2012. "New South Gate City Manager to Tackle Budget and Infrastructure Problems." *South Gate-Lynwood Patch*. October 5. <http://southgate-lynwood.patch.com/articles/new-south-gate-city-manager-to-tackle-budget-and-infrastructure-problems>.
- Quinones, S. 2007. *Antonio's Gun and Delfino's Dream: True Tales of Mexican Migration*. Albuquerque: University of New Mexico Press.

Michael McGrath is the editor of National Civic Review.
