

Testimony of Los Angeles Mayor Antonio R. Villaraigosa before
the House Committee on Oversight & Government Reform
California Science Center
Friday, March 5, 2010

Thank you Mr. Chairman and members of the Committee. I appreciate the opportunity to testify before you today on the impact of the American Recovery & Reinvestment Act funding on the City of Los Angeles.

At the outset, let me say that the City of Los Angeles is grateful to President Obama and the Congress for passage of the Recovery Act and the funds that Los Angeles has been awarded to date. With these funds we are training our local workforce, repairing our infrastructure, improving our environment and assisting those most impacted by this economic downturn

Of course, I would like to see more funding come to Los Angeles; to receive our fair share. And I look forward to working with our congressional delegation and this Committee to ensure that happens.

First, let me give you a snapshot of what is happening today in the City of Los Angeles. We are facing unprecedented times

and economic challenges unlike anything we've seen in a generation. The unemployment rate in the City hovers around 14% and in some of our most important industries, like construction, it is approaching 30%. Our tax revenues from property, sales, business, documentary transfer and hotel occupancy are down by more than 30%.

For the remainder of our fiscal year, we are facing a \$212 million deficit and we are projecting a \$485 million deficit for the next fiscal year. We have instituted early retirements for some 2,400 City workers, furloughs, salary cuts and unfortunately layoffs. We are looking at the possibility of laying off up to 1,000 workers for the balance of this fiscal year and an additional 3,000 employees for the next fiscal year, out of a civilian work force of 24,000 employees.

So how has the Recovery Act funds impacted our financial situation? The real answer is not as much as we would like.

To date, the City has been awarded \$592 million in Recovery Act funds from formula and competitive grants and as a prime recipient and as a sub-recipient. We have received \$16 million in Recovery Act funds while expending \$31 million and have

had to borrow the balance to front-fund projects while awaiting reimbursement. We have created or retained 1,207 jobs, of which 869 were temporary summer youth jobs.

One of the five goals of the Recovery Act was to “Stabilize state and local budgets in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.”

Unfortunately, while state governments and school districts received Recovery funds to stabilize their budgets, municipal governments have not.

The Recovery funds we receive, for the most part, cannot be used to supplant local funds. Rather these funds must be used to expand existing programs or launch new initiatives that will be difficult to sustain once the Recovery funds are expended.

With that said, my first recommendation to the Committee is to allow municipalities to use Recovery funds for budget stabilization. As the Vice President of the U.S. Conference of Mayors, I have found that this problem is not unique to Los Angeles but is faced in every large city in the country.

My second recommendation is to send more of the Recovery funds directly to metropolitan areas. If we are going to get this country on the road to recovery, that road begins in our cities.

Cities are the economic engine of this country. 88% of the Gross Domestic Product (GDP) is located in cities; 82% of the unemployment is located in cities; 80% of foreclosures are located in cities.

But when the “shovel ready” infrastructure money was distributed, states received 70% of the funding while metropolitan areas only received 30%.

Because I had been Speaker of the California Legislature, I was able to get that reversed in California so that 70% of the funding went to the urban areas and 30% went to the state. But this is the only place where that happened.

As I often say, when the money goes to the states, there is no assurance that it is not being used to build roads to connect

ducks with geese; whereas infrastructure money that is spent in cities create jobs as well as improve mobility and air quality.

In an effort to get the Recovery funds out quickly, it was determined that the money would be provided to federal agencies, who in turn would distribute it, for the most part, using existing grant programs. These grant programs are very specific about how the funding can be used.

The “silo”-ing of funds has limited our ability to utilize funds where they can do the most good or where the need is greatest. We are not able to bundle funding together to address problems that cut across federal agencies jurisdictions.

For example, in one area of the City, we may receive funds to improve policing services but not be able to fix the streets, conduct weatherization of homes, add energy efficient lighting, or prevent foreclosures.

How much more efficient it would be if we had the flexibility on how and where Recovery funds were used? Flexibility like we have with the Community Development Block Grant program or the old revenue sharing programs of the Nixon Administration.

Another concern with existing grant programs is the missing link to job creation, which is the number one priority of my administration and has been the central focus of the Recovery Act.

A good example is the \$7.5 million of broadband expansion funding we received - more than any other city in the country. While this funding will allow us to bridge the digital divide by creating 4,000 workstations in public libraries, recreation and community centers, it only creates one new job.

Other grants for equipment, such as the \$8 million for the purchase of 16 clean fuel burning buses, will help improve the environment, but don't create a single job.

So my third recommendation is to break down the “silo”-ing of Recovery funds and allow greater flexibility on how the funds may be used in order to maximize job creation and address the greatest needs.

Los Angeles will be negatively impacted due to interpretations by federal agencies of Recovery Act language. Because of the

size of Los Angeles and the number of miles of streets and sidewalks, City employees are used to resurface streets and repair sidewalks. When we received “shovel ready” infrastructure funding through the Recovery Act, we identified street resurfacing as one of the main ways to get projects underway, put people to work and spend money in the shortest period of time.

And so we started our street resurfacing program using our City workforce. The Federal Highway Administration notified us last August, that while projects that had begun prior to July 28 could continue to use City workforce, we would be prohibited from doing so on any projects started after that date. Now we are faced with a situation where we have funding for future projects but we will have to lay off 139 City employees and contract that work out. It makes no sense to me.

And therefore, my last recommendation is that Congress provides an exemption to allow for the use of force account labor on Recovery Act funded-projects.

Thank you for the opportunity to testify today and I am happy to answer any questions you may have.