PAY TO PLAY IN THE CITY OF LOS ANGELES
An Analysis of Campaign Contributions and the Awarding of Government Contracts

A report for the Los Angeles City Ethics Commission
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Summary
Analysis of campaign contribution and government contract data from the City of Los Angeles indicates that bidders making contributions to City Council are awarded more profitable contracts than non-contributing bidders in select city departments. This trend, coupled with the lack of transparency in the city’s contracting activity, may encourage the public’s perception of pay to play practices—the awarding of governmental contracts in exchange for payment from a private interest. Measure H, which was approved by voters on March 2011, restricts campaign contributions and fundraising by bidders on certain City contracts; requires increased disclosure for bidders; and provides for bans on future contracts for violators. This measure will regulate some of the incidences that give rise to actual or perceived pay to play practices. However, given its limited scope, more research needs to be conducted to further investigate potential pay to play practices not regulated by this measure. There is also an opportunity to improve transparency and monitor potential pay to play practices by enhancing the city’s contract monitoring practices.

Issue
The city of Los Angeles has controls in place to combat undue influence by contributors on City Council Candidates. This undue influence could manifest itself in unfair awarding of contracts to contributing companies resulting in improper use of public funds. This issue is of relevance to the City because there have been recent signals of pay to play and concerns about public perception of corruption.

Finding One
Contributing contractors had more profitable relationships with the City of Los Angeles.

### Contributing law firms receive bigger average contracts

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Contributing Firm</td>
<td>$131,000</td>
</tr>
<tr>
<td>Contributing Firm</td>
<td>$285,000</td>
</tr>
</tbody>
</table>

Contributing firms, on average, had more lawyers on staff than non-contributing firms.

### Number of lawyers per law firm type

<table>
<thead>
<tr>
<th></th>
<th>Average # of lawyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non contributing firm</td>
<td>152</td>
</tr>
<tr>
<td>Contributing firm</td>
<td>374</td>
</tr>
</tbody>
</table>

Finding Two
Through our investigation, we uncovered issues of poor record keeping and inaccessibility of information, factors that can contribute to an environment ripe for pay to play abuses.
Contributions
The City of Los Angeles has campaign finance, ethics, and contracting laws in place that attempt to mitigate pay to play; however, the amount of money that continues to flow into the political process is of concern. Proposition H, which was approved by voters in 1990, banned outside employment for elected officials, most gifts to elected officials, lobbying by elected officials for one year after leaving office and established partial public funding of political campaigns. This landmark campaign finance and ethics reform attempted to limit some of the situations that make pay to play possible. Currently there is a $50 limit per candidate per election per person. This is an attempt to limit the influence that one donor can have on a campaign and require that a politician seek financial support from a wide range of individuals.1

Contracts
The City of Los Angeles has contracting laws to maintain a contracting process that is fair, transparent, and efficient; however, transparency and accessibility of information make the City’s contracting activity ripe for pay to play abuse. Currently, there is no comprehensive City contracts database. As a result, there is no official estimate of the scope and nature of the City’s contracting activity. Without appropriate monitoring it is difficult to know who is benefiting the most from city contracts. In general, the City Council is responsible for approving contracts lasting three years and worth over $100,000.

Recent Signals of the Existence of Pay to play
Due to its clandestine nature, the extent of pay to play is not known, but recent signals indicate the possibility of its existence. In 2008, Leland Wong, a former Los Angeles city commissioner and member of the agency in charge of overseeing city contracts, was convicted of public corruption for receiving $100,000 in bribes from a Taiwanese shipping company. This conviction resulted from a 2004 audit by then City Controller Laura Chick where she claimed that these actions revealed a culture of pay to play in the City of Los Angeles.2 She maintained that the lack of documentation generated in the selection process created “an environment ripe for abuse”.3 More recently in October 2010, Advanced Development and Investment Inc., a Los Angeles developer, was accused of making improper gifts to officials and defrauding taxpayers of millions of dollars by overbilling on contracts.4 These incidents of improper behavior in both the public and private sector indicate the potential for additional corruption that has yet to be detected.

Objective 1: Investigate the relationship between political contributions to City Council elections and city contracts.

To achieve this objective, we matched City Attorney and Harbor Department contractors with the contributions made by the contracting entity, or its employees, during the 2005 to 2010 period. For the City Attorney, it was also possible to investigate differences in the contribution and contracting activity of successful and unsuccessful contract bidders.

Objective 2: Collect expert opinions on the relationship between political contributions in city contracting and the city’s role in monitoring this relationship.

To achieve this objective, we interviewed twenty representatives from business, labor, consulting, advocacy, government agencies, elected officials, and non-governmental groups.

Objective 3: Assess the need to further investigate and monitor political contributions by city contractor bidders.

To achieve this goal, we assessed the city’s contracting data practices based on expert interviews and our own experiences.

Theories about pay to play practices

Timing of campaign contribution and awarding of contracts
There is great uncertainty concerning the exact timing between contract approvals and contributions. Theories suggest that a contribution is likely to take place a few months before or after a contract is approved. A contribution that is made before a contract is awarded may be to influence the approval of a contract. A contribution that is made after a contract is awarded may be to thank the decision maker or to withhold payment until the contract has been secured.

Contribution activity of bidders and non-bidders
The existence of pay to play practices may be observed by comparing the contribution activity between bidders and non-bidders, and successful and unsuccessful bidders. If no difference exists in the contribution activity between these groups we assumed that bidders are contributing to express their political beliefs. If, however, there is a difference this could signal that contributions are made in an attempt to influence the City contracting process.

Contracting activity of contributors and non-contributors
The existence of pay to play practices may be observed by comparing the contracting activity of contributing bidders and non-contributing bidders. If no difference exists in the contracts awarded to contributing bidders and non-contributing bidders we assume that making a contribution does not influence the contract approval process. If, however, there is a difference this could signal that contributions influence the City contracting process.
The quantitative data enabled us to analyze the patterns of contribution and contracting that exist within two departments: City Attorney and Harbor Department. Our research focus was to compare the contracting patterns of contributing companies with non-contributing companies. The underlying assumption in our analysis is that if pay to play does not exist, there would only be minor differences in contributions between companies that do business with the city and those that do not. Our qualitative research, including expert interviews and first-hand experience obtaining contract information, led us to the conclusion that there is an environment ripe for pay to play to exist in Los Angeles.

**City Attorney’s Office Data Analysis**

Our first research focus was to develop a base rate of contributions to city council candidates from law firms. This is the rate at which law firms should be contributing if they were only expressing their political preferences.

The chart to the right illustrates that those seeking to do business with the city contribute more often than those firms who do not. Further, law firms that have had a contract with the city contribute more than those that have attempted to do business in Los Angeles but have not necessarily won a contract.

Our second research focus centered on the differences in contract award amounts for contributing and non-contributing law firms. By looking at the size of the contracts, we were able to determine whether contributing firms receive more money from the city than those that did not contribute. The results of this analysis are below:

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>Total amount awarded*</th>
<th>Number of contracts</th>
<th>Average contract amount*</th>
<th>Average amount awarded per firm*</th>
<th>Average # of contracts per firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributing Law Firm (34)</td>
<td>$35.4 million</td>
<td>124</td>
<td>$285,000</td>
<td>$1,041,176</td>
<td>3.6</td>
</tr>
<tr>
<td>Non-contributing Law Firm (68)</td>
<td>$25.3 million</td>
<td>193</td>
<td>$131,000</td>
<td>$372,058</td>
<td>2.8</td>
</tr>
<tr>
<td>Difference</td>
<td>$10.1 million</td>
<td>-69</td>
<td>$154,000</td>
<td>$669,117</td>
<td>1.8</td>
</tr>
</tbody>
</table>

*53 of the 317 contracts had “not specified” award amounts and were not included. These 53 contracts were divided among 35 law firms, 11 of which were contributing and 24 were non-contributing.

These research findings show that firms that contribute to city council races receive more money from the city than those that do not contribute. It is still unclear whether there are characteristics of those firms that are more likely to contribute to city council races that also allow them to qualify for more lucrative contracts with the city.

Our analysis of law firm size, noted in page one of this report, provides some insight on the differences between the two types of law firms. It is evident that the contributing law firms are always bigger than the non-contributing firms, and this increases both the likelihood of contribution among its employees but more importantly the capacity of the firm to handle a larger contract.

**Harbor Department Data Analysis**

Using contracting data from the Harbor Department, we performed a similar comparison between companies that contributed to city council races and those that did not. The results were similar to the City Attorney analysis—contributing companies consistently received more money from the City than their non-contributing counterparts.

There were 138 contracts awarded to non-contributing companies and only 30 contracts awarded to contributing companies, but the average contract for a contributing company was $1.5 million larger. Following the same pattern the 20 contributing companies received $3.2 million more on average than the 128 non-contributing companies.
An Environment Ripe for Abuse

While the results of our investigation were significant, they were limited by the information that we were able to analyze. Issues with information accessibility and the pervasiveness of poor record keeping in select city departments also contribute to an environment ripe for abuse. The difficulties we encountered in accessing contracting information from city departments was complicated by the fact that each department accepted different formats of requests, had varying staff capabilities, and in some cases took up to two months to respond with the data we had requested. We initially reached out to seven city departments but only received data from three, with only two of these departments having information complete enough to be included in our analysis. Further, the data we were able to gather was often formatted in a way that was difficult to analyze. In addition, we had to synthesize information from city departments with additional resources in order to create a more complete data set appropriate for our analysis.

Much of the discontent and suggestions we encountered in our interviews stemmed from a belief that contracting in Los Angeles could benefit from increased transparency and that current systemic problems and trends increase the likelihood or appearance of pay to play within the City. Though much of this finding is based in qualitative and anecdotal evidence, its pervasiveness suggests that what we have seen may exhibit a wider trend of contracting in Los Angeles. The idea that we found an environment ripe for abuse does not necessarily signal that pay to play is present in Los Angeles, but it does show that the perception may be. There is reason to believe that even this perception of pay to play carries with it many of the same ill effects and can contribute to the propagation of additional pay to play practices.

RECOMMENDATIONS

RECOMMENDATION ONE

A comprehensive centralized contracting database/clearinghouse is needed to increase transparency and monitor potential pay to play practices

Draft a policy that requires that all city departments submit their contracts to the City Clerk.

Create a citywide database of contract bidder and proposer political contributions and fundraising activity.

RECOMMENDATION TWO

More research needed to understand the relationship between campaign contributions and the awarding of contracts in the City of Los Angeles

Apply the research methodology used in this report to other departments in the City of Los Angeles.

Modify this research methodology to utilize new Measure H data.

Expand the scope of this study to include other decisions in the contracting process.

Expand the scope of this study to include other city transactions.

1 Los Angeles City Ethics Commission (2006). Investing in the Public Trust: Campaign Finance Reform in the City of Los Angeles 15 Years After Proposition H. Los Angeles City Ethics Commission, February 2006