



***City of Los Angeles
Budget Overview Presentation 2012***

Presented by the Office of the City Administrative Officer

March 2012

Topics

- General Overview
- Fiscal Year 2011-12 Budget
- Issues of Concern and Challenges
- Development of the 2012-13 Budget



Overview

❑ Good News

- 2011-12 is in balance at this time
- Reserve Fund stable (no transfer required at this time)
- Projected shortfall for 2012-13 reduced from as high as \$250 million to about \$220 million

❑ Bad News

- \$220 million deficit
- Major issues of concern still remain
- City cut to the bone (4,900 positions eliminated since 2007-08)
- Ongoing new revenue options are limited without voter approval
- Cost drivers continue to be pension, health care, workers' compensation, and employee compensation
- Four year outlook will continue to show significant deficits



Fiscal Year 2011-12 Budget at a Glance

- ❑ The City's General Fund is what supports most of the municipal services in the City such as Fire and Police services.
- ❑ Special funds are generated for a specific purpose, typically approved by voters for a specific service like sewer construction.
- ❑ Proprietary Departments are governed by separate boards but still fall within the jurisdictional review of the Mayor and City Council.

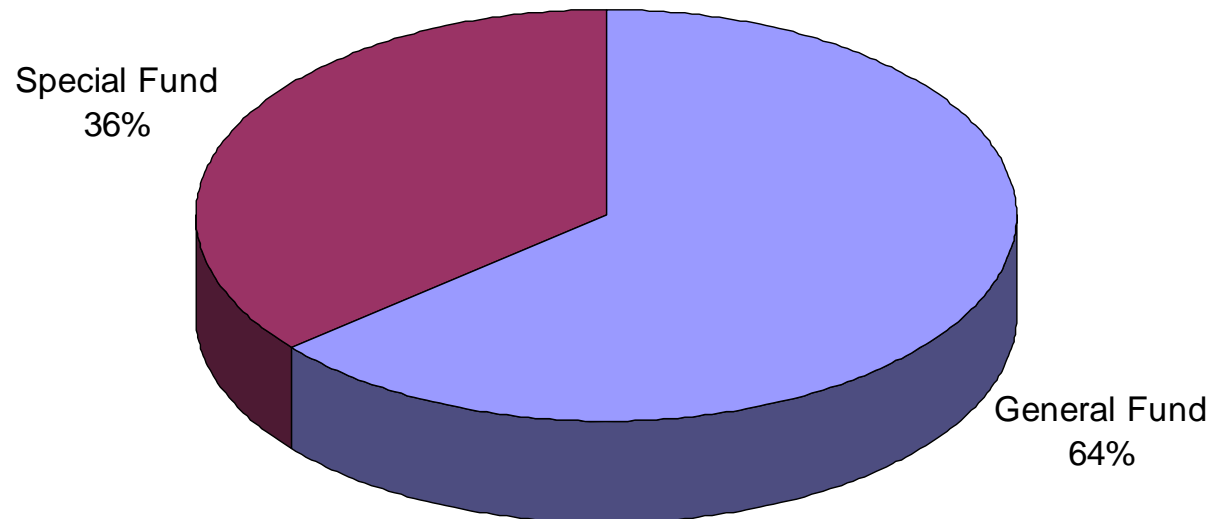
FISCAL YEAR 2011-12 BUDGET COMPONENT	AMOUNT (\$ Millions)	Authorized Positions
City Budget	\$6,872	32,274
General Fund	\$4,386	22,103
Special Funds	\$2,486	10,171
Proprietary Department Budgets		
Airports	\$5,015	3,480
Harbor	\$977	989
Water and Power	\$6,468	10,383
Grants and Other Non- Budgeted	\$1,312	
Total City Government	\$20,644	47,126



Fiscal Year 2011-12 Budget

- General Fund revenue fluctuates depending on economic conditions. Diversity of revenues helps stabilize revenue volatility.
- Most of the decisions that are made on the budget year after year pertain to the General Fund.
- Special funds offer little flexibility but provide stability for the City and its services by ensuring a dedicated source of funding for key services.

FY 2011-12 Adopted Budget \$6,872 Million



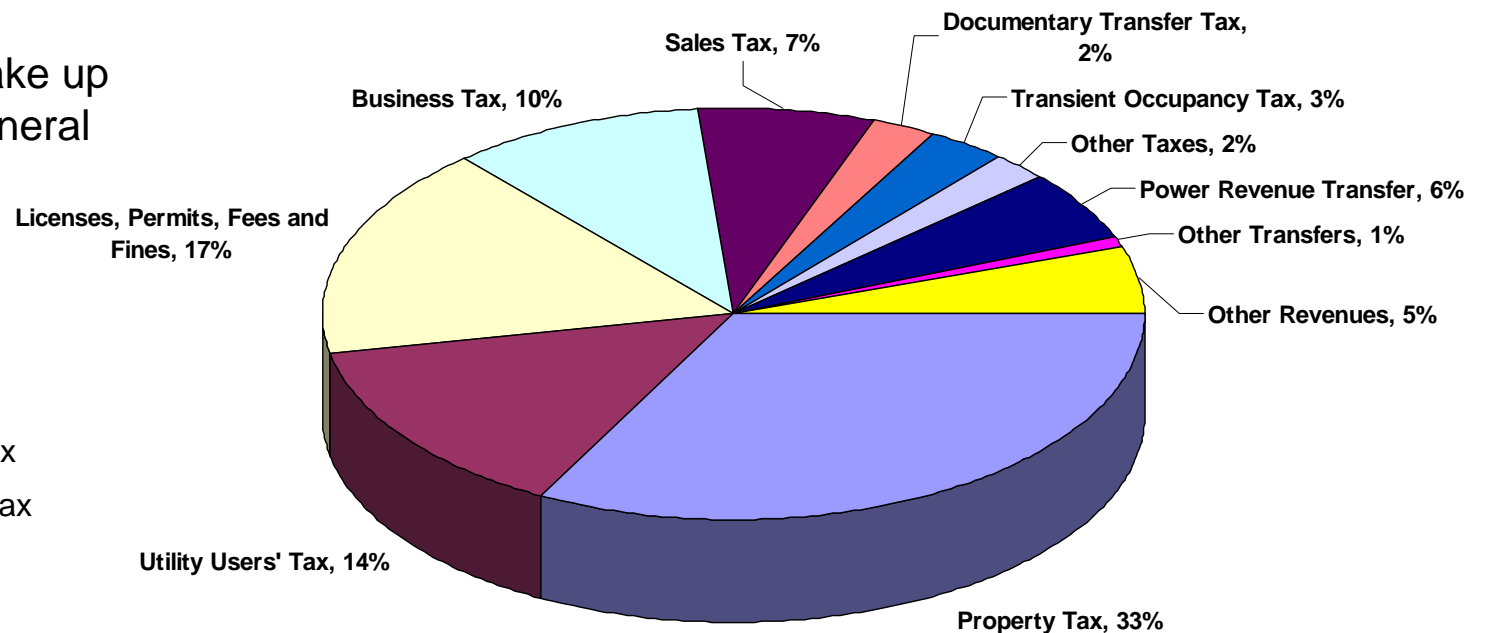
Fiscal Year 2011-12 Budget – General Fund Total: \$4.4 Billion

- ❑ No single source of income comprises more than a third of the City's revenue base.

FY2011-12 General Fund Revenue Sources

- ❑ Top 6 economically sensitive revenues make up close to 70% of all General Fund revenue:

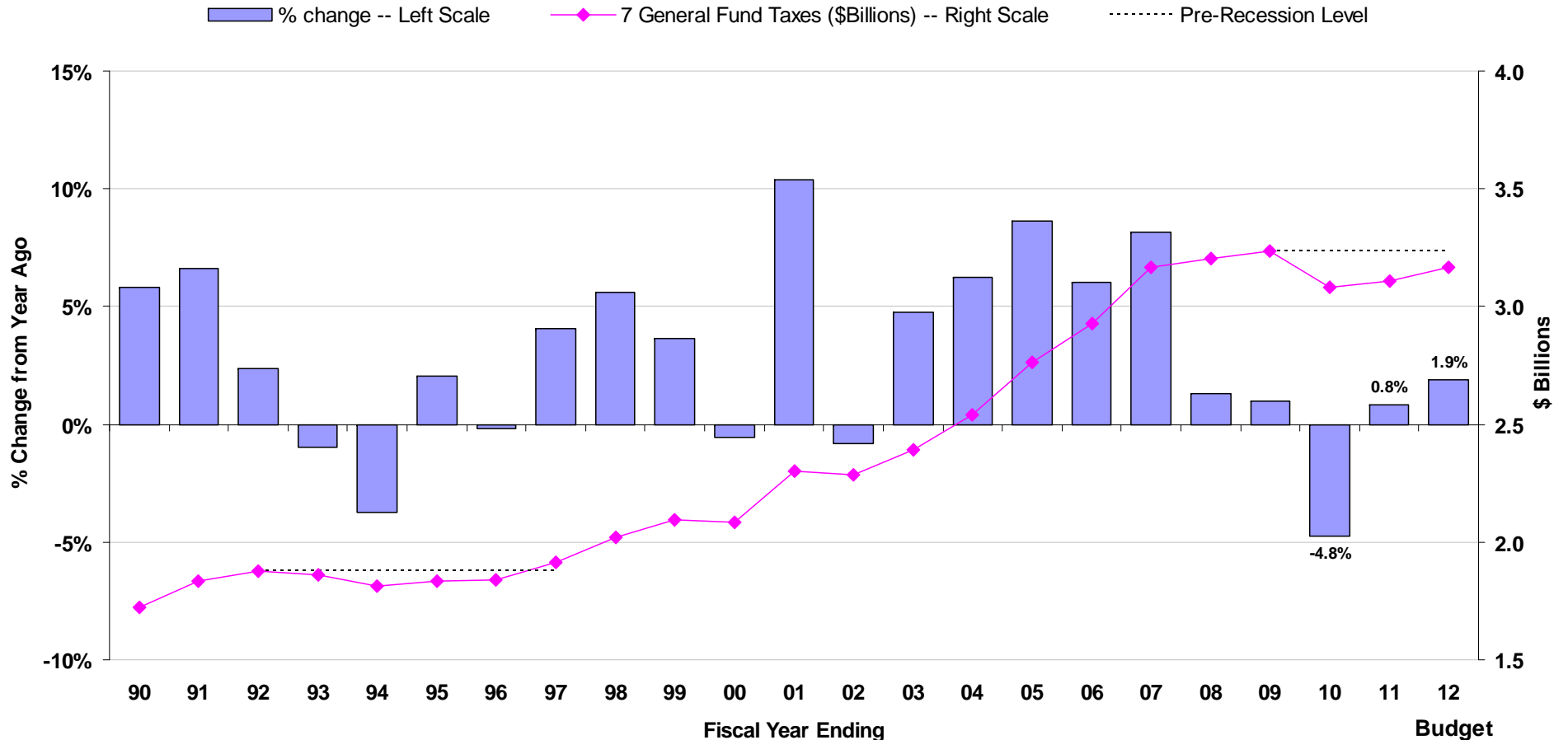
- Property Tax
- Utility Users' Tax
- Sales Tax
- Business Tax
- Transient Occupancy Tax
- Documentary Transfer Tax



Fiscal Year 2011-12 Budget – General Fund Taxes

7 General Fund Taxes

Property (includes VLF), Utility, Business, Sales, Hotel, Documentary and Parking Taxes



Major General Fund taxes currently account for more than 70% of all General Fund revenue. The balance is fees, transfers from other funds, interest income etc. These taxes grew at an average annual rate of 3% during this period, but it took 5 years to exceed 1991-92 revenue after the recession of the early 1990s and it will take at least another year to restore these City taxes to the 2008-09 level.



Fiscal Year 2011-12 Budget: Update on Revenues

- ❑ No change in Revenue being recommended at this time for FY 2011-12.
- ❑ The property tax is currently very close to budget plan of \$1,436 million.
- ❑ **Known Revenue Reductions:**
 - **Vehicle License Fee (VLF):** State budget action reduced vehicle license fee receipts by \$4.1 million. Beginning 2012-13, ongoing reduction will be \$15 million.
 - **Power Transfer:** Audited financial statement for the Power Revenue Fund reduced the budgeted transfer from that fund by \$3.9 million.
- ❑ **Risks to Revenue:**
 - **Documentary Transfer Tax:** receipts through January are slightly above last year's level, but are \$3.6 million below budget.
 - **Utility Users' Tax:** because of falling natural gas prices, gas users' tax receipts will fall below budget by about \$6 million.
- ❑ **Revenue Growth:** Two economy-sensitive revenues are showing growth reflecting improvements in the local economy.
 - **Sales Tax:** Receipts to date are currently \$7.6 million above plan however, no adjustments are recommended at this time. Taxable sales for the Christmas quarter will be available in late March and that will provide a basis to revise the sales tax estimate.
 - **Transient Occupancy Tax** receipts are \$8.9 million above plan at January. Based on strong growth in all segments of the travel industry and increasing occupancy and room rates, this revenue will likely exceed budget. The estimate will be revised after reviewing tax receipts for February and March.



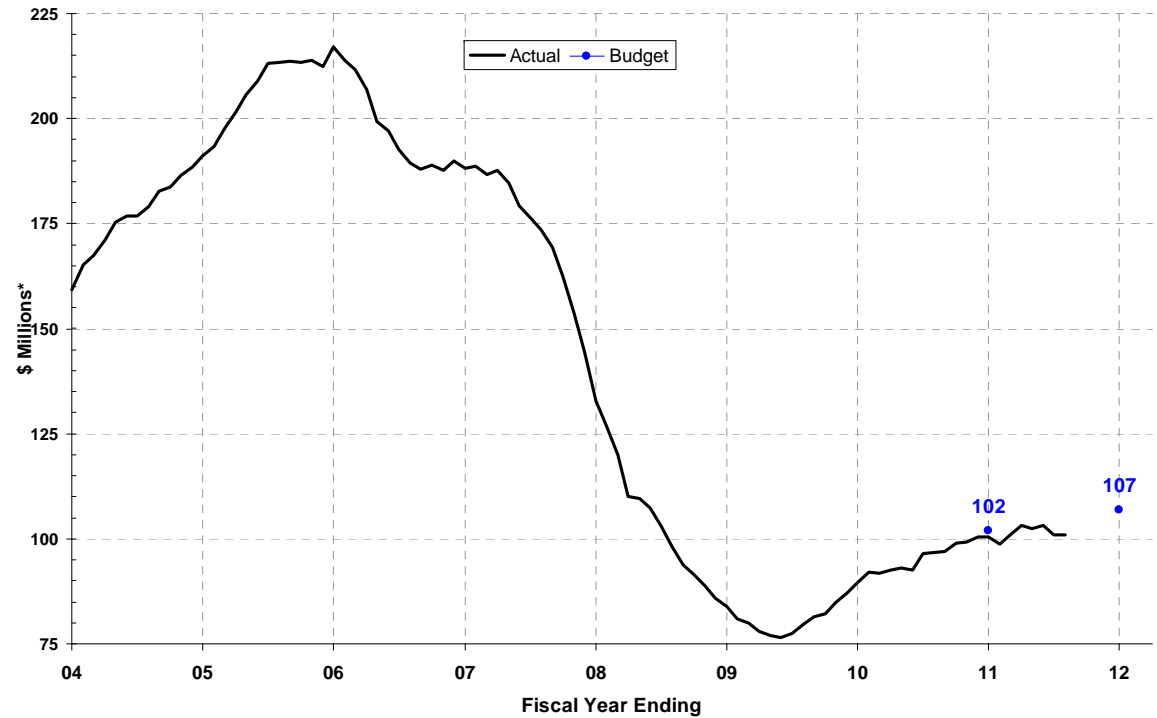
Fiscal Year 2011-12 Budget: Update on Revenues

□ Risks to Revenue:

- **Documentary transfer tax:** receipts through January are slightly above last year's level, but are \$3.6 million below budget.
- **Utility users' tax:** because of falling natural gas prices, gas users' tax receipts will fall below budget.

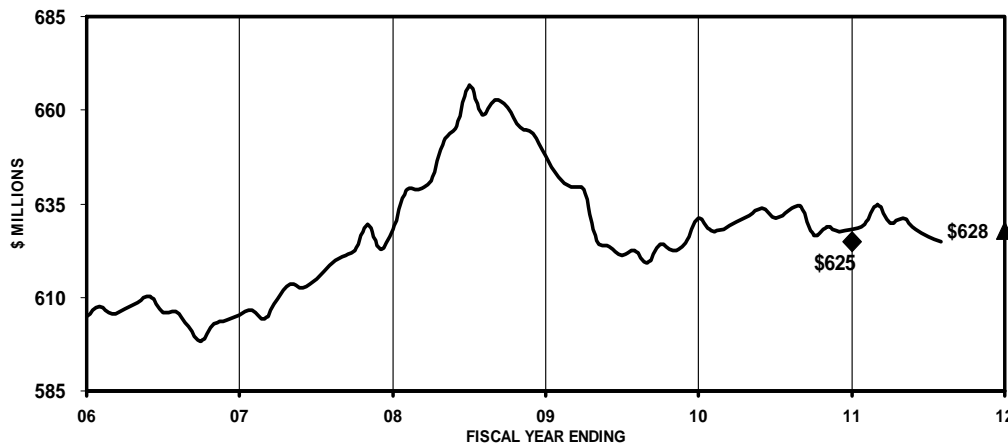
Documentary Transfer Tax -- Includes Legal Entity Transfers

12-Month Moving Sum

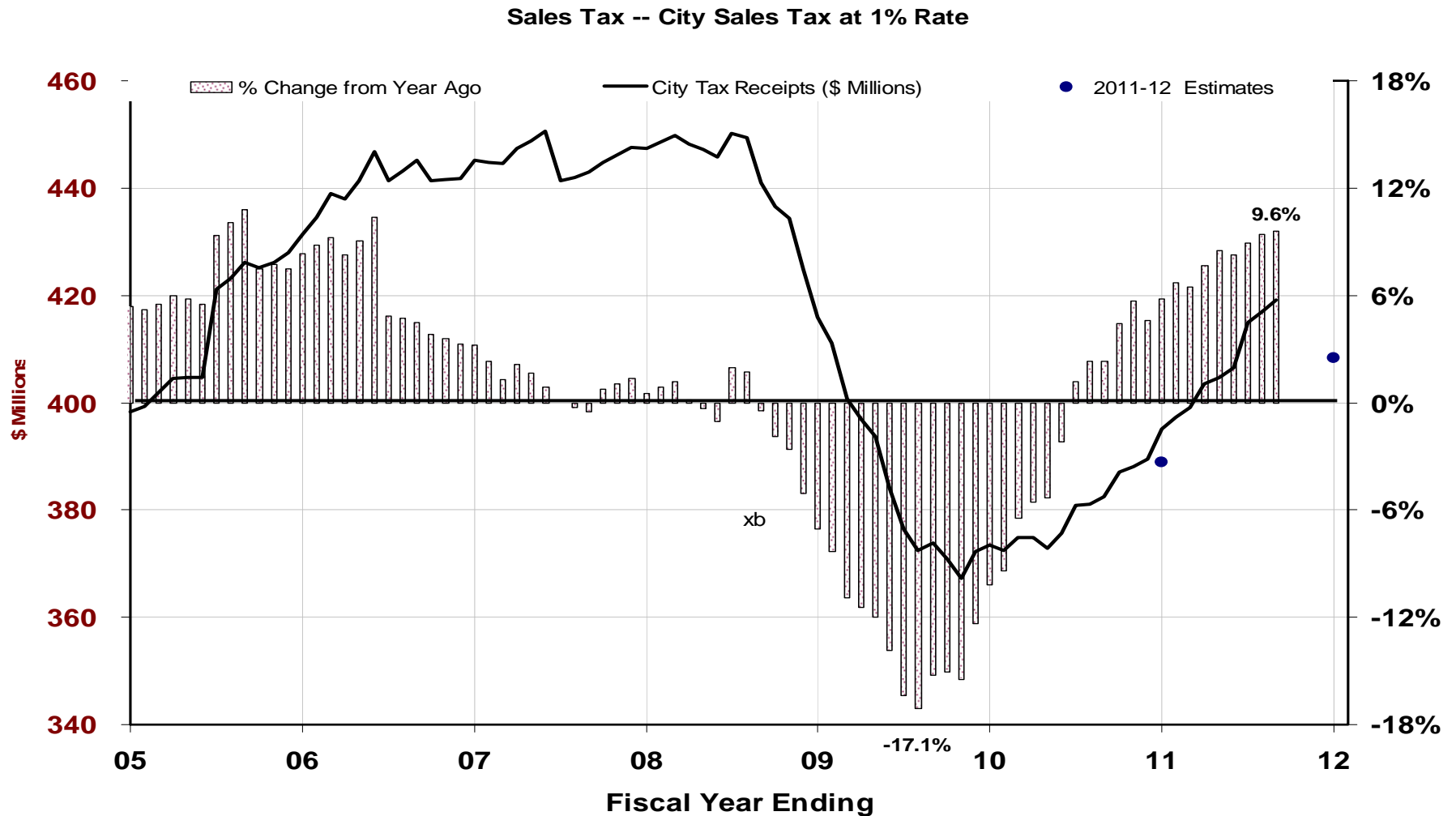


UTILITY USERS' TAX
12-MONTH MOVING SUM

— ACTUAL ◆ REVISED ▲ PROPOSED



Fiscal Year 2011-12 Budget: Update on Revenues

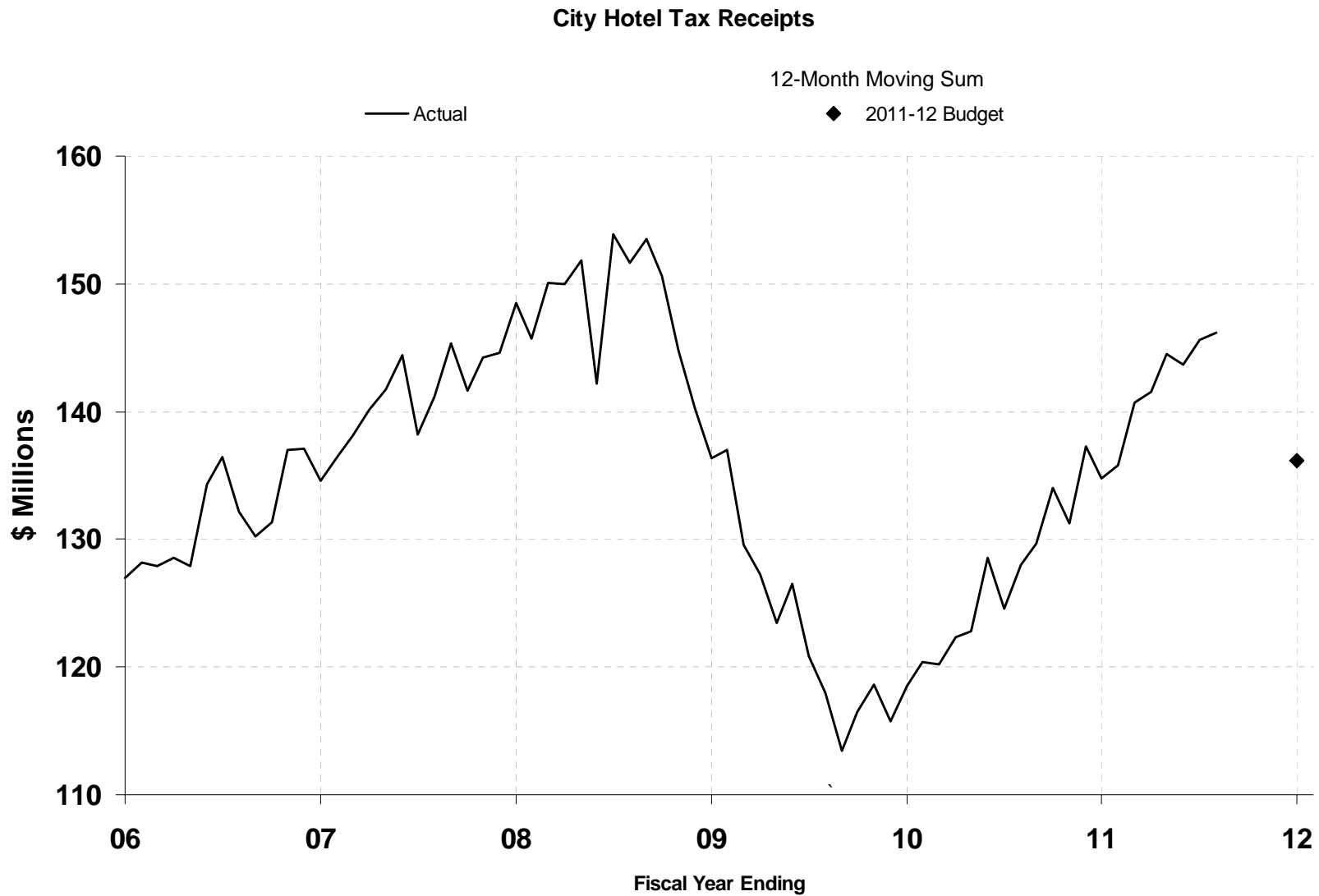


Sales tax performance has been steadily improving and increased by 9.6% in the Summer quarter.

The City tax rate was changed from 1% of taxable sales to 3/4% as part of a state budget balancing plan. The 1/4% is now remitted to the City as part of the property tax. For comparative purposes, this table shows sales tax at the 1%-tax rate.



Fiscal Year 2011-12 Budget: Update on Revenues



Fiscal Year 2011-12 Budget: Update on Revenues

- **Business Tax, still counting:** March and April are the peak renewal months for Business Tax. The budget for this year is \$439 million which is \$20.8 million more than last year's actual receipts.
 - Recent City changes to taxation of mutual funds are projected to reduce the budgeted revenue by \$2.5 million.
 - Controller and Office of Finance have reduced projection for this year to \$423 million which is \$16 million less than budget. However, more will be known after March.

- **Business Tax Reform Efforts:** Business Tax represents 10% of the General Fund revenue. Pursuing the recommendations from the Business Tax Advisory Committee will result in the loss of \$106 million in revenue for the first year and another \$106 million in each of the next four years. This Office contracted with a firm to complete a study of a variety of business tax options, and further information will be provided at the conclusion of the study.

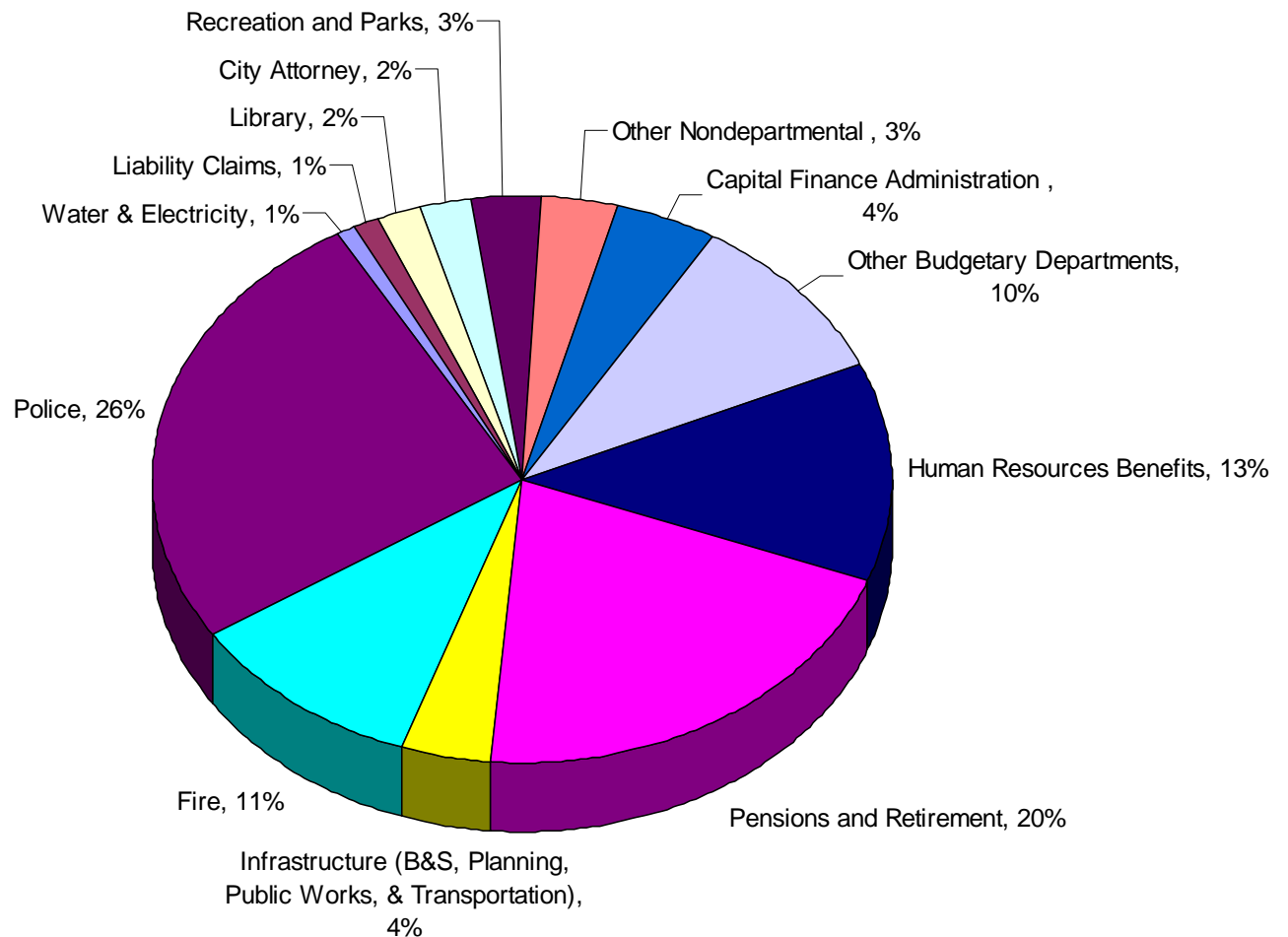


Fiscal Year 2011-12 Budget – General Fund Total: \$4.4 Billion

Public Safety continues to be a priority for the City, with the Police and Fire Departments accounting for more than a third (37%) of total General Fund Appropriations.

The next largest appropriation is to Pensions and Retirement (20%) which almost equals the collective amount budgeted for all other City departments (21%).

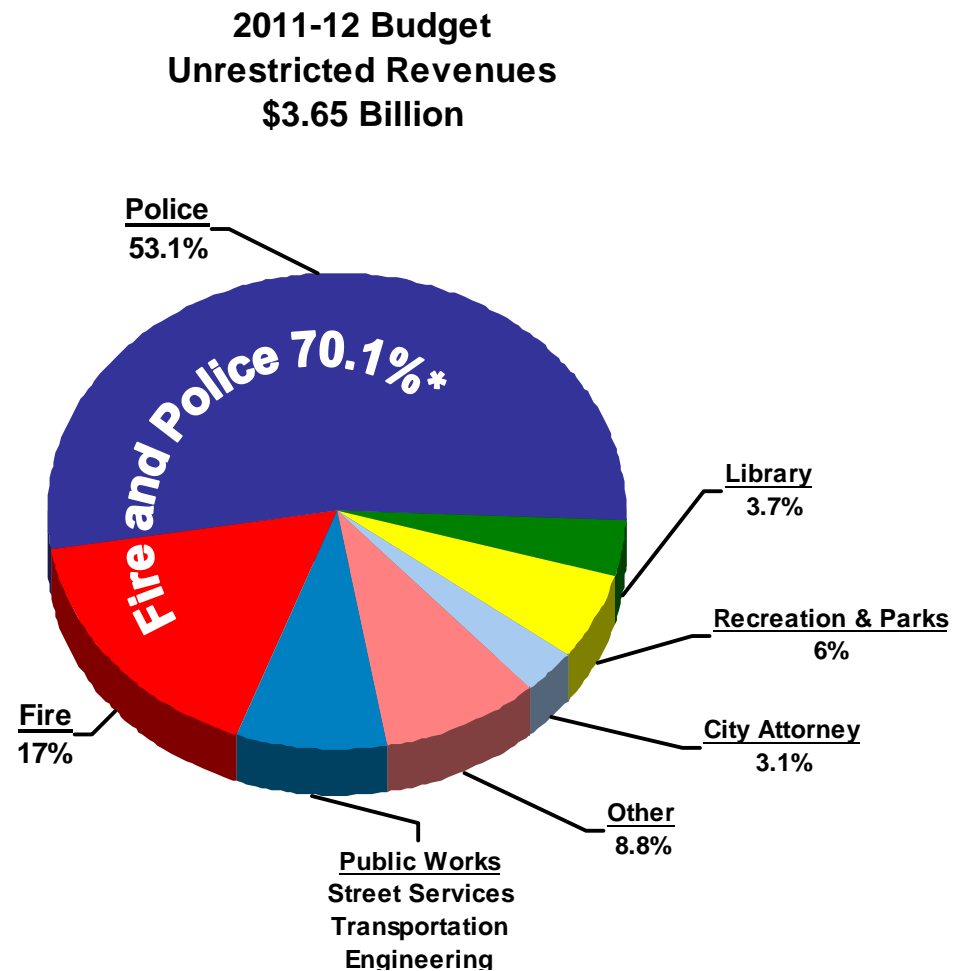
FY2011-12 General Fund Appropriations



Fiscal Year 2011-12 Budget – Distribution of Unrestricted Revenues

□ While the Police and Fire Departments accounted for only 37% of total General Fund Appropriations, combined they account for over 70% of unrestricted revenue expenditures. These expenditures include their allocation of pensions and health care costs.

□ Restricted Revenues include sewer revenues, gas tax, grants, and fees for special services.



*Includes allocation of pension and healthcare costs.



Fiscal Year 2011-12 Budget: Current Year Deficit Status

- Mid-Year Budget Deficit:** Since 2007-08, the City has faced substantial shortfalls during the Fiscal Year that it has addressed through interim budget actions. The pattern of reporting shortfalls during the year will continue as long as the City is confronted by restricted revenue growth and increasing costs. For this year, the deficit has been addressed.

Citywide Mid-Year Deficits Addressed (millions)

Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12
Projected Deficit at Mid-Year	\$155	\$110	\$209	\$54	\$72

Second FSR Deficit



Mid-Year FSR Revised Deficit



*As much as \$8 million in solutions pending further action.

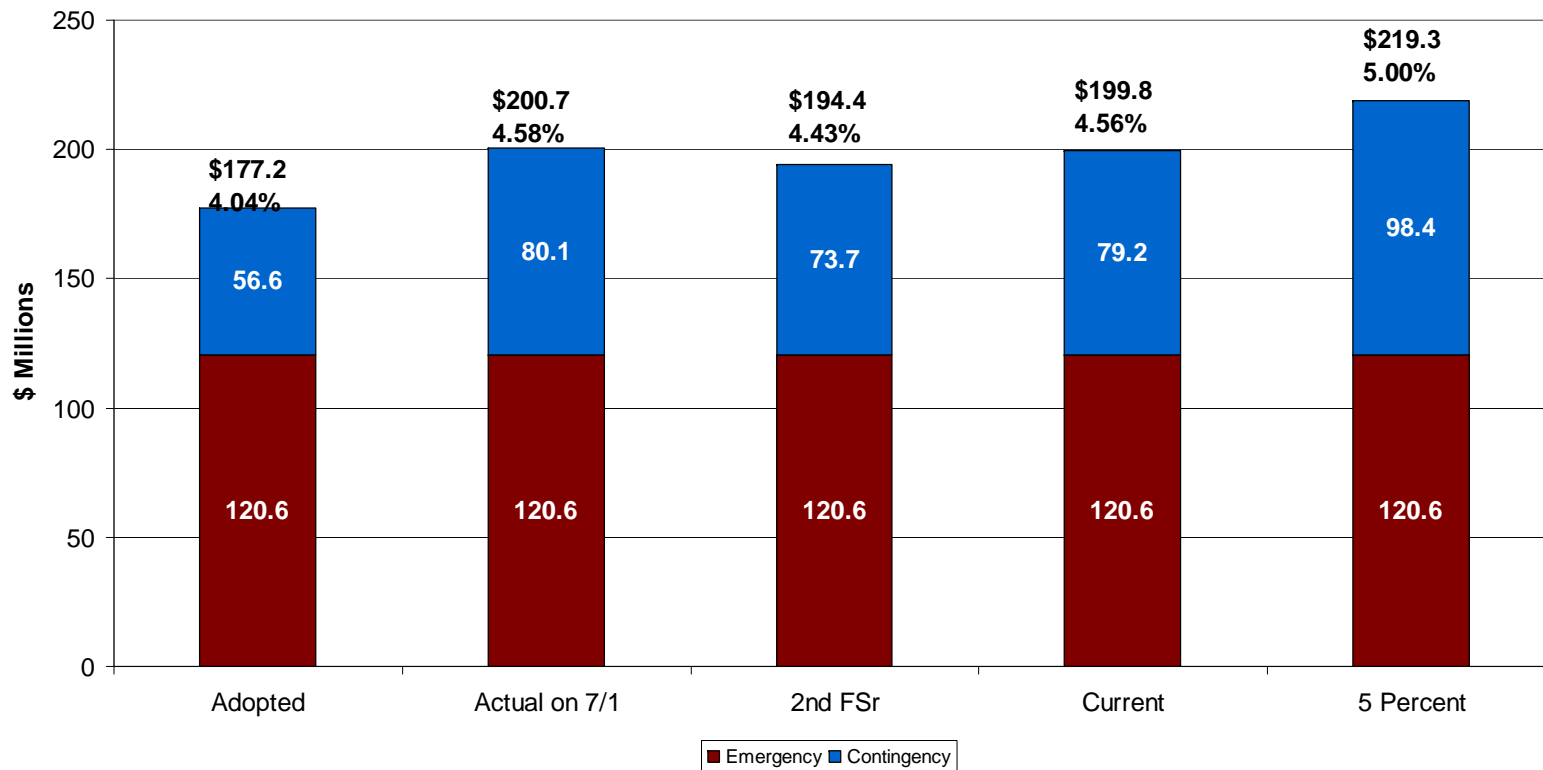


Fiscal Year 2011-12 Budget: Reserve Fund Status

“Rating agencies consider the government’s fund balance [reserve fund] policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning ratings. Thus, a well developed and transparent strategy to replenish fund balance may reduce the cost of borrowing.”

- Government Finance Officers Association (GFOA)

Status of Reserve Fund for FY 2011-12



- Higher than projected departmental savings resulted in a Reserve Fund balance on July 1, 2011 that exceeded the 2011-12 adopted budget by \$23.5 million.
- The current Reserve Fund Balance is nearly \$199.8 million (4.56% of the General Fund), after providing for transfers and loan repayments.
- Meeting the 5 percent requirement established by the City’s Financial Policies would require a balance of \$219.3 million, or an increase of \$19.5 million.
- FY 2001-02 first and last time Reserve Fund was budgeted at 5% or more of the General Fund.



Fiscal Year 2011-12 Budget: Reserve Fund Status

“It is essential that governments maintain adequate levels of fund balance [reserve fund] to mitigate risks and provide a back-up for revenue shortfalls.”

-GFOA

❑ Other reasons for maintaining a strong Reserve Fund:

- Ardon v. City of Los Angeles related to the Telephone Users Tax. Liability could be as high as \$750 million.
- Sidewalk/ADA related cases beginning to move through the courts. Unknown liability.
- Sluggish economic recovery.
- Actions by the State or Federal governments



Issues of Concern and Challenges: Actions the State and Federal Governments

- ❑ **Actions by the State on its budget** will continue to have an impact in the City (e.g., additional cuts will be triggered due to revenue targets not being reached). Additionally, the State eliminated the City's VLF payment as of July 1, 2011. The cut in 2011-12 was partially offset from prior year payments and additional grant funds. However, the City's loss in 2012-13 and beyond will be \$15 million. More recently, the LAO has pegged the State's deficit at nearly \$13 billion as opposed to the more optimistic forecast used by the Governor of \$9.2 billion.

- ❑ **Actions by the Federal** government to reduce the deficit may result in reductions to Federal grants received by City departments including the HOME Investment Partnerships program, the Community Development Block Grant (CDBG) program, and proprietary departments.



Photo: CA State Capitol Building



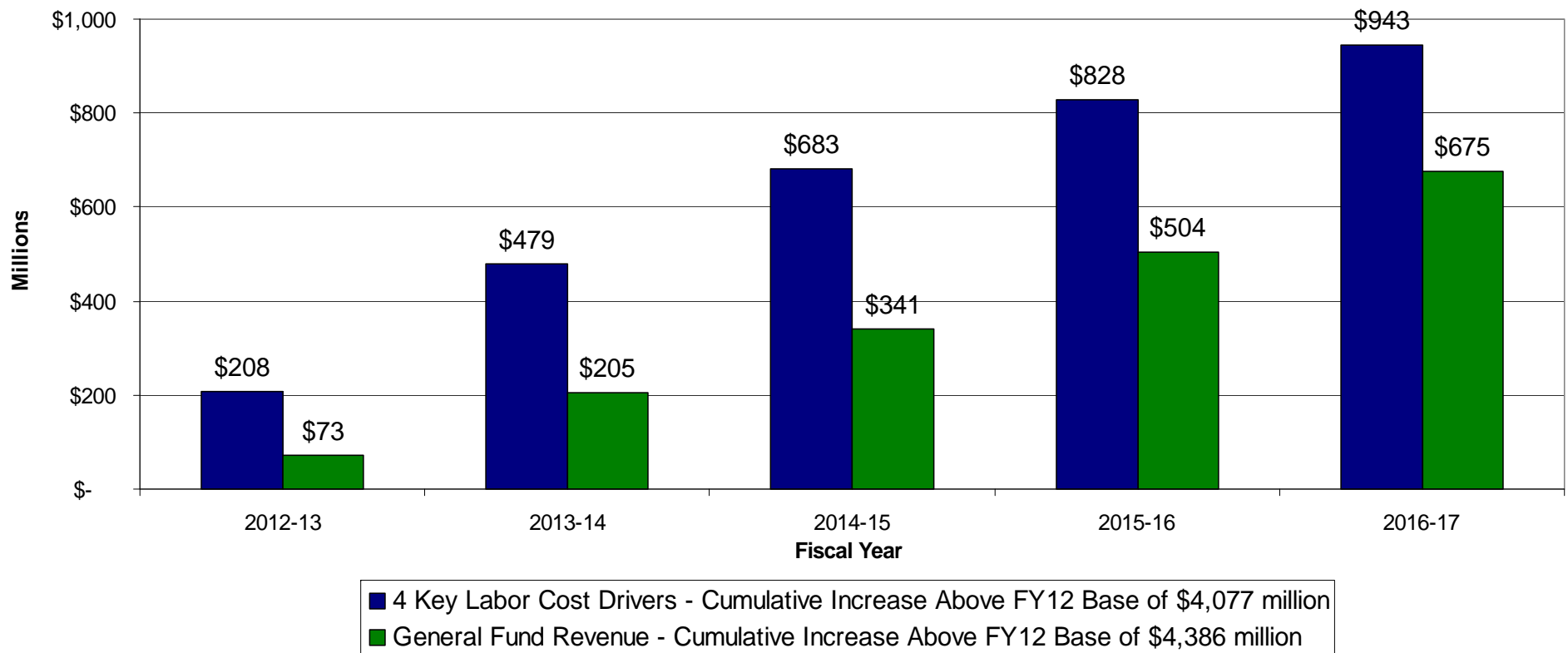
Photo: US Capitol Building



Issues of Concern and Challenges: Labor Costs

- Labor Cost:** Over the course of the next five years, labor costs as represented by 1) **Employee Compensation**, 2) **Health Benefits**, 3) **Pension Contributions**, and 4) **Workers Compensation** will significantly increase from the current base level of \$4,077 million for 2011-12. However, General Fund Revenue during this same period is not expected to increase at the same rate.

**Five Year Projections of Cumulative Labor Cost Increases
 Compared to Cumulative General Fund Revenue Increase for Same Period
 (Base Year FY 2011-12)**



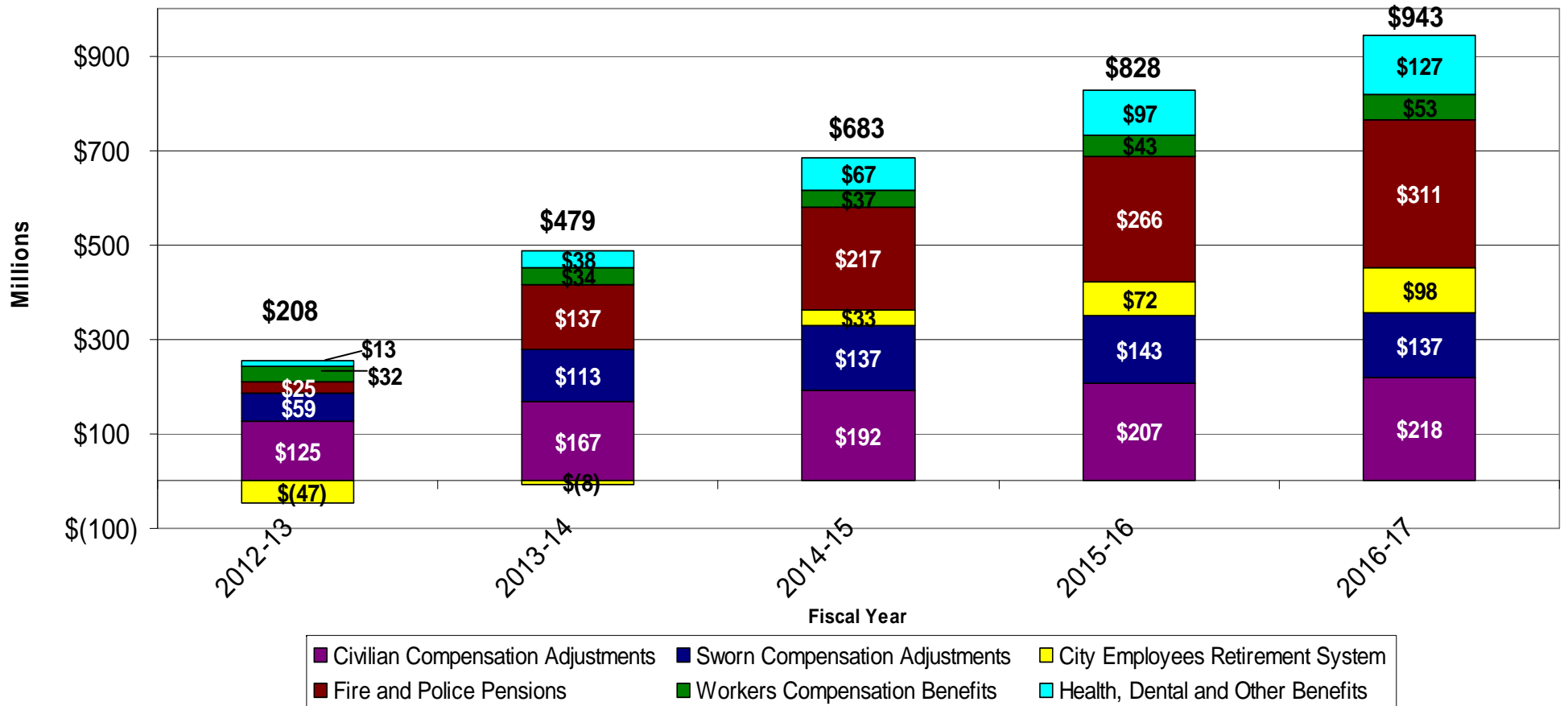
Revenue Growth: 1.7% for FY13; 3% for FY14; 3% for FY15; 3.5% for FY16; 3.5% for FY17
 Pension Returns: 0% Market Value of Assets for FY12; 7.75% per year thereafter
 Authorized City Staffing in FY12: 32,274



Issues of Concern and Challenges: Labor Costs

□ Breakdown of Labor Cost

Five Year Projections of Cumulative Labor Cost Increases from Current Level
(Base Year FY 2011-12)

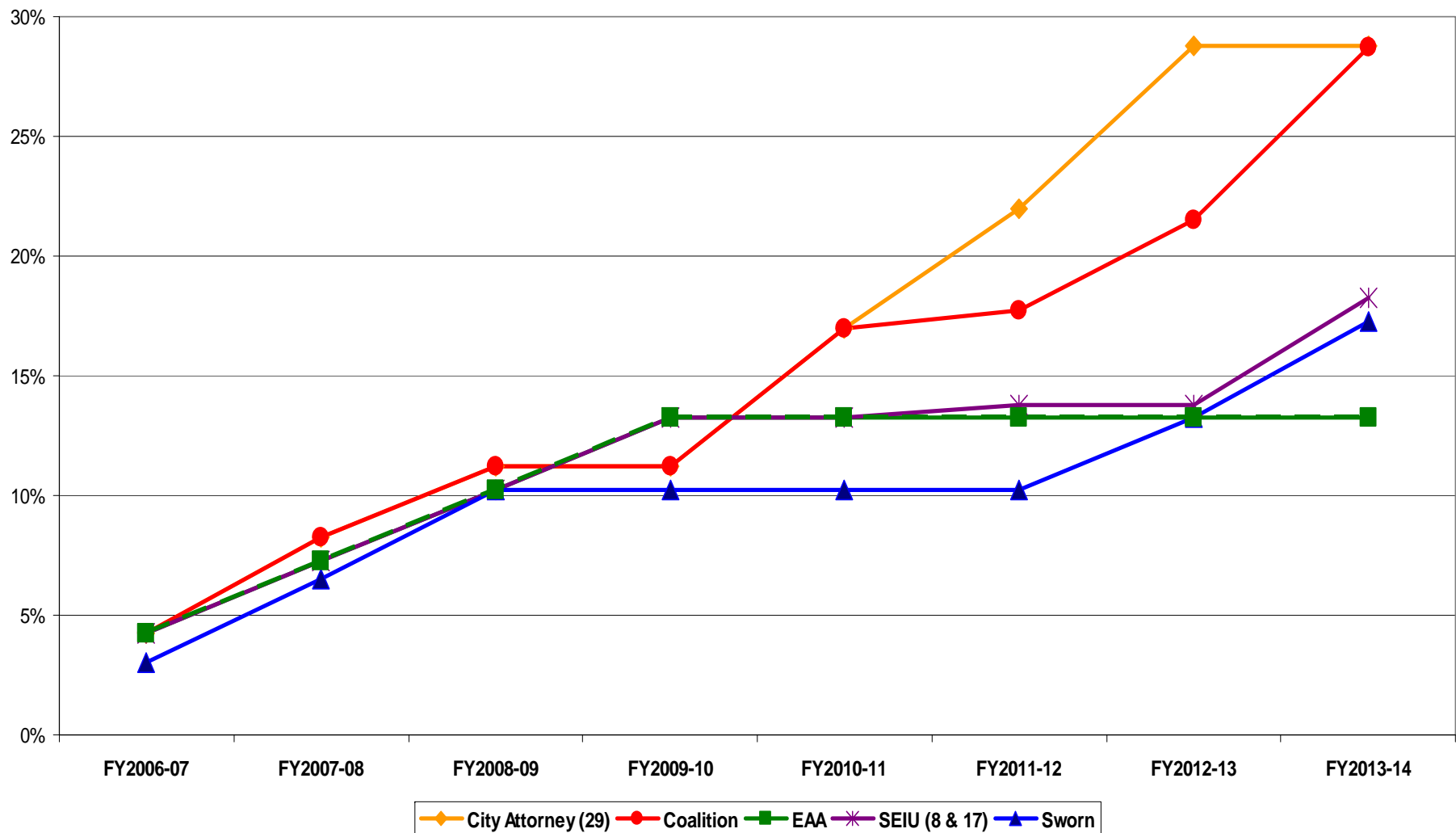


Pension Returns: 0% Market Value of Assets for FY12; 7.75% per year thereafter



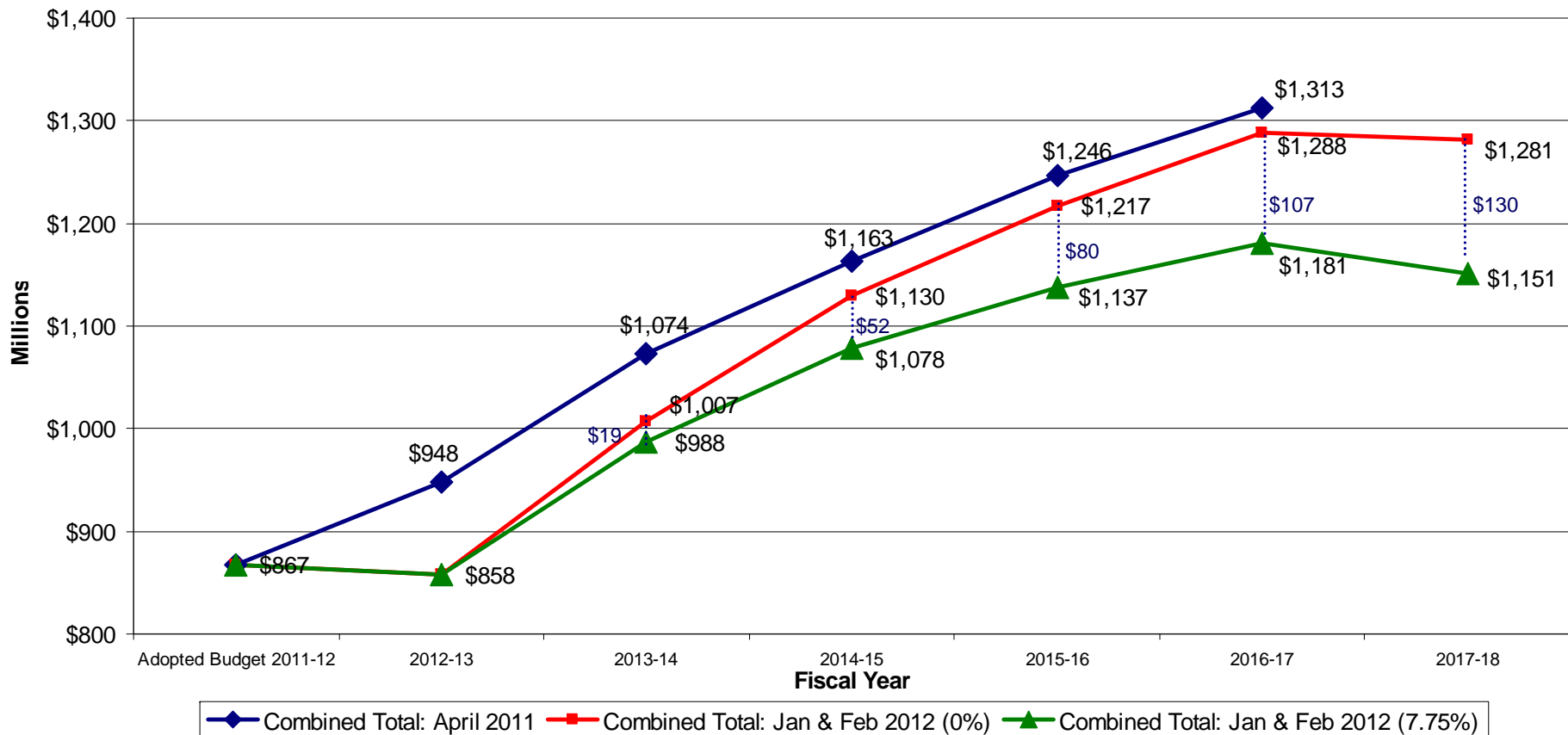
Issues of Concern and Challenges: Labor Costs

Cumulative Bargaining Unit Base Wage Movement
FY2006-07 to FY2013-14



Issues of Concern and Challenges: Pension Costs Tied to Stock Market

Projected City General Fund Contribution Amounts to LACERS & LAFPP Pension and Health (Contributions made July 15) FY 2012-13 to FY 2016-17

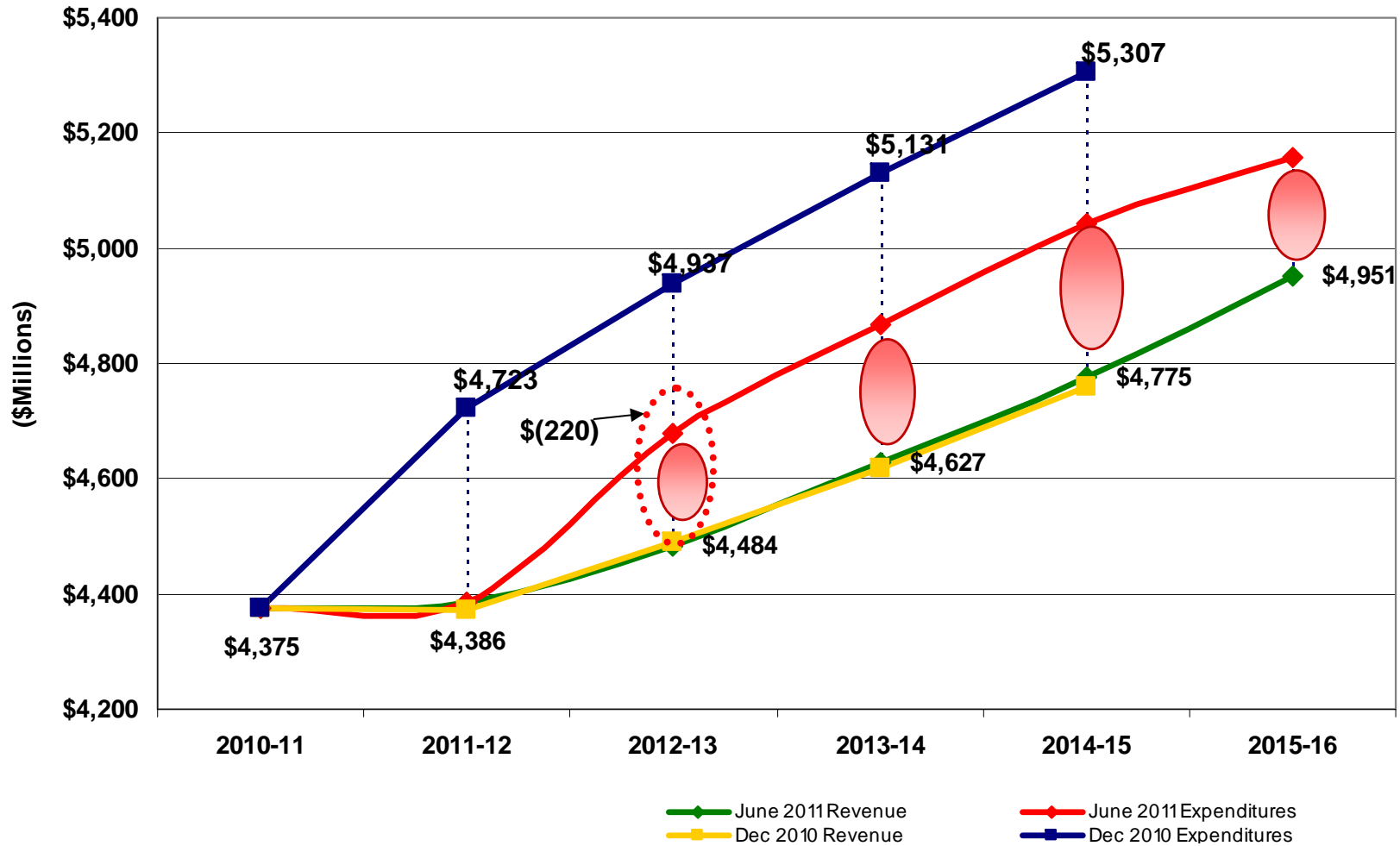


- April 2011: 8% Return on Market Value of Assets for 2010-11 and 8% per year thereafter.
- Jan & Feb 2012 (0%): 0% Return on Market Value of Assets for 2011-12 and 7.75% per year thereafter.
- Jan & Feb 2012 (7.75%): 7.75% Return on Market Value of Assets for 2011-12 and 7.75% per year thereafter.



Issues of Concern and Challenges: Ongoing Deficit for Years to Come

- Estimates in July 2011 showed the deficit for FY2012-13 at around \$200 million. However, revised estimates are being developed and may move the deficit closer to \$220 million.



Issues of Concern and Challenges: Order of Magnitude Deficit

- ❑ Closing a \$220 million budget deficit with cuts alone, with departments such as Police, Fire, Library, and Recreation and Parks exempted from cuts due to their priority status, would equate to eliminating the entire General Fund budgets of the following departments:

**Illustration of the Equivalent
of \$220 Million In Expenditures**

DEPARTMENT	2011-12 ADOPTED GENERAL FUND (In Millions)
Animal Services	\$20
City Attorney	\$92
Finance	\$37
Board of Public Works	\$10
Board of Contract Administration	\$19
Bureau of Engineering	\$26
Bureau of Street Services	\$16
Total	\$220



Budget Development for Fiscal Year 2012-13

❑ Controller's Message:

- **Mayor and City Council should focus on structural budgetary changes instead of continued reliance on one-time revenues and expenditure deferrals.**
- ❑ CAO in agreement. Our structural deficit requires a “Balanced Approach” solution which is focused on:
 - Ongoing Expenditure Reductions
 - Ongoing Revenue Enhancements
- ❑ Over the last several years, the City has been focused on expenditure reductions and relying on one-time revenue enhancements to close the annual budget gap:
 - Workforce reduction through Early Retirement, layoffs, and hiring freezes
 - Special Fund Transfers (i.e. Special Parking Revenue Fund)
- ❑ *The City must remain committed to the four pillars it has established to help guide it through this uncertainty.*
 - Responsible Fiscal Management
 - Focus on Core Services
 - Alternative Service Delivery Models
 - Sustainable Workforce



Four Pillars

I

Responsible Fiscal Management

- Stable Reserve Fund
- Reduce or Eliminate General Fund Subsidies
- Maximize Flexible Funding
- Strengthen & Streamline Central Administration Functions & Contracting Process
- Pursue New Revenue

II

Focus on Core Services

- Re-evaluate Discretionary Programs
- Consolidate Services
- Evaluate and Redesign Core Services

III

Alternative Service Delivery Models

- Partner with Non-profits, Foundations and Private Sector
- Maximize City Assets
- Strengthen Core Functions

IV

Sustainable Workforce

- Reduce the Size of the Workforce
- Reduce Healthcare and Workers' Compensation Costs
- Control Pensions and Retiree Health Costs
- Align Compensation
- Eliminate Furloughs through Concessions



Pursuing a Balanced Approach - Budget Reductions

- ❑ City is pursuing public private partnerships to reduce General Fund subsidies for services:
 - Private operators for the Los Angeles Zoo
 - ✓ RFP released
 - ✓ Bids received and being reviewed
 - Private non-profit operators for Animal Services Department animal care centers
 - ✓ Completed transfer of Northeast Valley Animal Care Center to Best Friends in January 2012
 - ✓ RFP for other care centers released

- ❑ City is pursuing changes to the current compensation and human resource structure which require negotiations with unions.

- ❑ For FY 2012-13, the Mayor has called for 6% and 12% reduction proposals from departments with General Fund appropriations.



Actions Taken by the City

- ❑ Eliminated Departments:
 - Commission on the Status of Women
 - Commission on Children, Youth, and Families
 - Human Relations Commission
 - Environmental Affairs Department (functions partially absorbed by Building and Safety Department and Bureau of Sanitation)
 - Office of the Treasurer (functions consolidated with Office of Finance)
- ❑ Improved billing and collections procedures
- ❑ Explored fees for services
- ❑ Refinanced Debt for Lower Interest Rates
- ❑ Sought state and federal assistance
- ❑ Deferred and/or canceled Capital Projects
- ❑ Maximized other special funds
- ❑ Instituted furloughs



Actions Taken by the City

- ❑ Renegotiated most labor contracts with cost savings provisions including:
 - Salary Reductions
 - Salary Restructuring
 - Healthcare plan design changes for Active Members (e.g. increased co-pays)
 - Unpaid holidays
 - Reductions in the cash-payment of overtime
 - Salary-step freezes
 - No cash-payment of excess sick leave accumulations

- ❑ Adopted pension and retiree health reform for current and future employees:
 - Active Member contributions towards retiree healthcare
 - Medical subsidy freeze for Active Members that do not make an additional contribution towards retiree healthcare
 - New retirement tier for new sworn hires



Actions Taken by the City

- ❑ Civilian workforce reduced to its lowest point in more than 3 decades
 - 2,400 through Early Retirement Incentive Program (ERIP)
 - Approximately 930 employees transferred to special funded/proprietary departments
 - Close to 470 employees laid off since March 2010
 - Normal attrition without backfilling

Comparison of Civilian General Fund Positions 1990-91 to 2011-12

(Excludes Grant and Special Funded positions except for Police and Fire departments.)

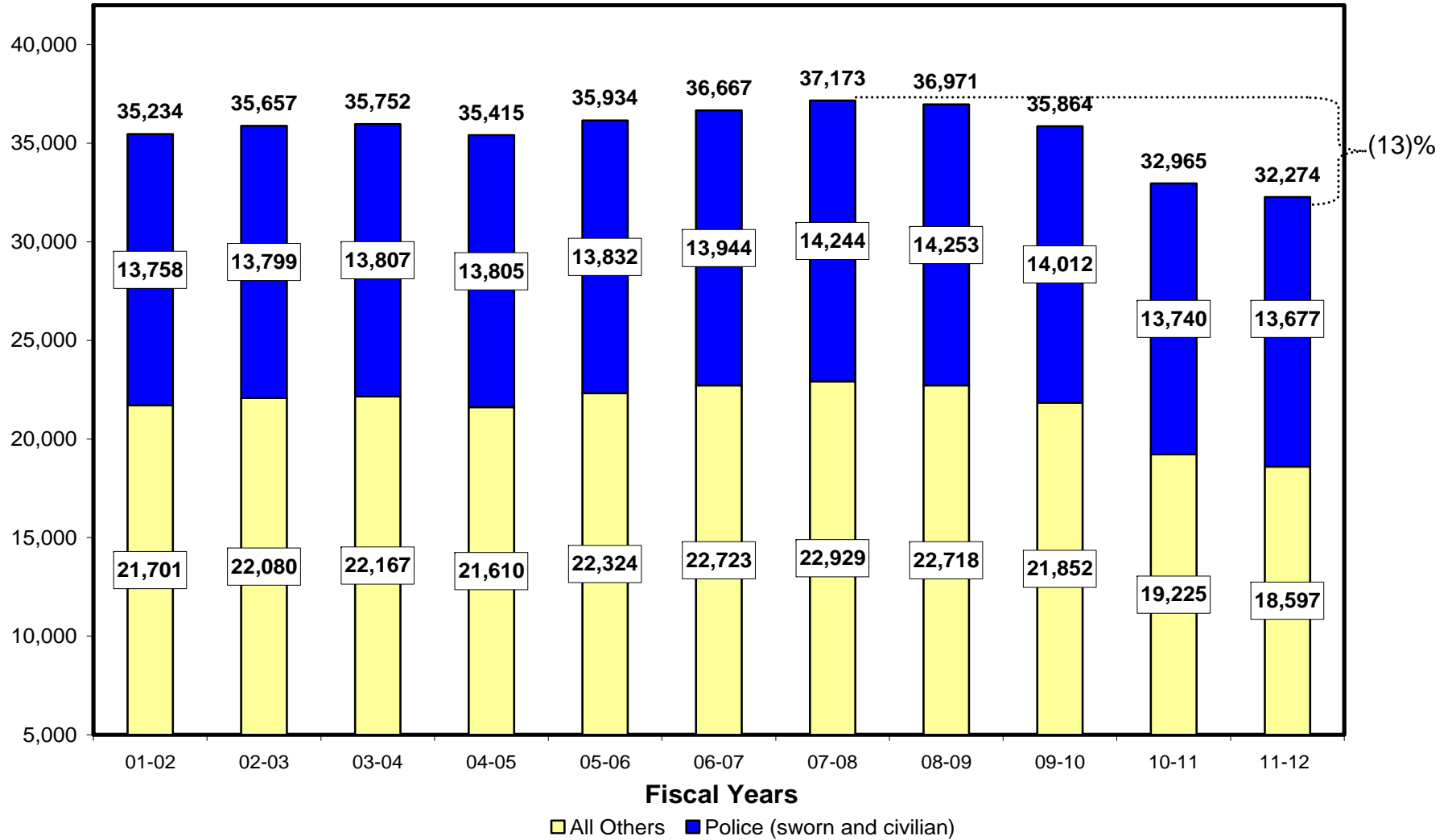
	Fiscal Year		Percent Change
	1990-91	2011-12	
Fire and Police Departments	2,751	3,515	28%
All Other Departments	11,569	5,388	-53%
General Fund Civilian Positions	14,320	8,903	-38%



AUTHORIZED CITY STAFFING

Not including Proprietary Departments

Positions



Further Actions to Consider

□ Ongoing Reductions

1. Reduce Salaries by 10% (sworn and civilian employees)
 - ✓ \$230 million in GF savings in 2012-13

2. Freeze Salaries at current level (sworn and civilian employees)
 - ✓ \$53 million in GF salary savings in 2012-13
 - ✓ Additional \$73 million in GF salary savings in 2013-14
 - ✓ Additional \$37 million in GF salary savings in 2014-15
 - ✓ \$75 million in GF savings on pensions from 2012-13 to 2014-15

3. Freezing Police Hiring in 2012-13 and only hire to attrition in 2013-14
 - ✓ \$10 million in GF savings for direct and related costs in 2012-13
 - ✓ \$27 million in GF savings for direct and related costs in 2013-14

4. Require 10% Employee Contribution to Healthcare (civilian employees only)
 - ✓ \$20 million in GF savings for a full enrollment year



Further Actions to Consider

□ Ongoing Revenues

- 1. Documentary Transfer Tax Increase:** Increase to \$9 per \$1,000 of property sale value, double the current tax of \$4.50. Requires 50+1 approval in a General Election or in a Special Election if Emergency Resolution is passed.
 - ✓ Approximately \$100 million in additional General Fund revenue

- 2. Parking Occupancy Tax Increase:** Increase tax to 15% (from 10%) on parking fees collected from patrons at parking facilities. Requires 50+1 approval in a General Election or in a Special Election if Emergency Resolution is passed.
 - ✓ Approximately \$40 million in additional General Fund revenue



Next Steps in the Budget Development Process

□ 2011

- October 24 Mayor releases his Budget Policy Letter to departments
- October 25 CAO releases budget instructions to departments based on Mayor's policy direction
- October 29 Community Budget Day
- December 9 Department budgets due to Mayor and CAO

□ 2012

- Jan./Feb. Budget meetings with Mayor's Office and CAO
- Feb./March Budget meetings with Mayor's Office and departments
- March 1 Controller's revenue projections
- March Final budget decisions for Mayor's Proposed Budget
- April 20 Mayor's Budget due to City Council
- April/May Budget and Finance Committee reviews budget
- May City Council considers budget
- June 1 Charter deadline for Council to consider budget





For additional budget information and online budget documents
please visit:

cao.lacity.org

budget.lacity.org

controller.lacity.org/AdoptedBudget/index.htm

