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CITY OF LOS ANGELES

City at a Crossroads

SUBMITTED BY

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CITY AT A CROSSROADS: CRISIS MANAGEMENT OR STABILITY AND REINVESTMENT?

Under the steadfast leadership of the Mayor, the resolve of the City Council, and the sacrifice of city workers and residents, the City's financial footing has been strengthened. The results are unprecedented: an 80 percent reduction in the structural deficit in four years, while maintaining crime at the lowest levels in decades.

Moreover, the projected $216 million deficit for fiscal year 2013-14 is showing signs of improvement. Latest projections from the pension systems show that the reforms adopted are starting to bear fruit, resulting in a projected pension contribution that will be $45 million less than what had been projected just one year ago. Pension projections for outer years are due in the next quarter. Additionally, about $33 million has already been identified for deposit into the Budget Stabilization Fund, and unanticipated revenues this year may help the fund reach $70 to $80 million. These one-time funds will bolster the City's ability to continue critical services next year, although the challenge to keep these services funded in 2014-15 will resurface. Finally, projected revenue growth is likely to continue to grow at a steady pace assuming that global and national economic factors do not slow down LA's own recovery.

While we are starting to see the "light of the end of the tunnel", the security provided by this optimistic picture is still very fragile and not an accurate reflection of the structural problems that the city is facing. As long as growth in expenditures outpace increases in revenue, future budgets will still rely on one-time revenue to close in the black, leaving little room for addressing service gaps, investment in the city's infrastructure and adequate reserves to mitigate the looming legal and unforeseen liabilities.

Moreover, much work remains to bring services and the quality of life to a level Angelenos expect and that are reflective of a world class city. On the March, 2013 ballot voters in Los Angeles will consider Measure A. If approved, the sales tax will increase by one-half cent on the purchase of goods and services made within the City. Regardless of the outcome of the sales tax initiative, it is recommended that the policy makers launch a strategic planning process that reviews the progress made so far, identifies challenges and opportunities and most important, sets service level priorities with measureable outcomes. This strategic plan should be nimble and updated regularly, but also provide direction for the next ten years.

The path the City embarks on over the next few years is as important as the work that has already been done during the last four. Should the increase in the sales tax be supported by the majority of the voters, the city's finances will be stabilized and the city's policy makers will have the breathing room to make strategic decisions on where and how to invest. The opening of all labor contracts over the next 36 months creates opportunities to provide stability to the City's workforce but may also put pressure on policymakers to unwind the hard fought pension reforms and other labor concessions already adopted.

Will future policymakers learn from the mistakes of the past by asking: Is this new hiring program, labor contract, tax relief measure or restoration of services sustainable? Or will they simply rebuild the city back to where it was four years ago, vulnerable to the next economic downturn, multi-million dollar lawsuits, or reduction in state and federal funding?

Should the sales tax measure not pass, the work of the next mayor and council becomes much more difficult. While continuing forward with reforms, the city's policy makers will need to proceed with further reductions in core services to simply stay in balance. All general fund programs become vulnerable to further curtailment, especially public safety.

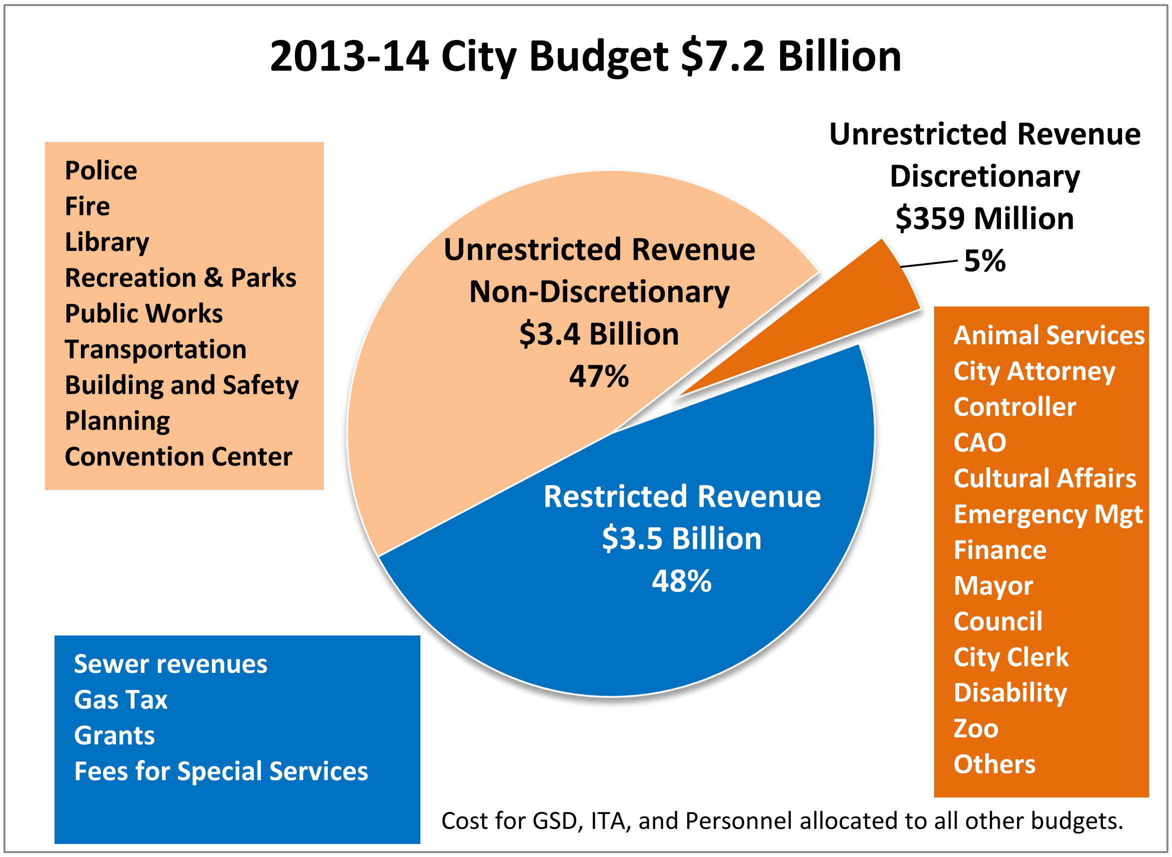
Without additional on-going revenue, the next 36 months will be filled with same tired question: What do we cut now without impacting the City's most essential service: public safety? It is to the credit of the Mayor, in strong partnership with the City Council, that despite the annual deficits, most Angelenos have never experienced a safer city. The recent discussion about layoffs in the Police Department and the City Attorney's office, and delayed response times in the fire department, have demonstrated that it is impossible to make further reductions without cutting into the bone of the City's public safety program.

With over 70 percent of all unrestricted revenues going toward public safety, it is impossible to establish any scenario where dramatic reductions in public safety are not made should the sales tax measure not pass. As the following chart illustrates (Chart 1), after accounting for all restricted revenue and all the programs that are charter mandated including library, recreation and parks, police, fire, transportation, building and safety, planning and the convention center, the City's discretionary spending is limited to only $359 million or 5 percent of the entire $7.2 billion budget.

The discretionary (5 percent) portion of the budget pays for the City Attorney, Animal Services, Controller, Cultural Affairs, Emergency Management, Council, Mayor, City Administrative Officer, City Clerk, Disability, Neighborhood Empowerment, Treasurer-Finance, and the Zoo. The bottom line is that there is simply little left to cut without deciding to eliminate entire programs all together or accepting that the quality of all programs, including public safety will be dramatically reduced.

The following report provides a synopsis of actions taken by the city to respond to the fiscal crisis and the strategies that were developed to chart a new course of responsible management and fiscal practices, prioritizing and improving services and establishing a more sustainable workforce. In addition, the final sections outline five priority areas with a brief overview of proposals and options depending on the outcome of the upcoming election.

Chart 1



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Stepping Back from the Brink

On July 1, 2009, the City of Los Angeles began its fiscal year with a daunting challenge; generate $320 million in savings before the close of the fiscal year to rebalance the budget. The worldwide downturn of the economy which began in 2008 compounded the problem with negative revenue growth, further widening the deficit by another $146 million for a total deficit of $466 million. The budget outlook for the following three years was even more distressing, growing to over $1 billion by fiscal year 2013-14 as the new mayor entered office. Contributing to this structural deficit were employment costs for salaries, pensions, healthcare, and workers' compensation which at that time were projected to increase collectively by over 21 percent from 2009-10 to 2013-14. In contrast, revenue was only projected to see growth of one percent during this same time.

This somber assessment of the City's existing and financial future, led many to question the city's fiscal solvency, let alone its resolve to right the ship. Fueling the notion of insolvency were the struggles of other municipalities nationwide and in particular California. In fact, the City of Vallejo's bankruptcy in 2008 and the more recent bankruptcy declarations by the cities of Stockton and San Bernardino in 2012 have only added to the perception that all California cities are on a path towards insolvency.

Recognizing the enormity of the crisis, in early 2010, the Mayor and Council leadership instructed this Office to take appropriate steps to balance the budget for 2009-10, and restore the City's long-term financial health and sustainability. In response, extraordinary budget measures including layoffs were taken in 2009-10 to close the budget deficit for that year. More importantly, this Office developed, and the Mayor and Council adopted, a *Three-Year Plan to Fiscal Sustainability* (Three-Year Plan) centered on responsible management and fiscal practices, service prioritization, service delivery improvements, and workforce sustainability. The Three-Year Plan was based on the best practices in municipal finance, budgeting, and strategic planning, as well as from numerous examples of the most successful strategies employed by cities, counties, and states. The Three-Year Plan was later updated to include several initiatives to enhance revenues.

As a result of the City's action in implementing the numerous reforms promoted by the Three-Year Plan, as well as improved economic conditions, the City of Los Angeles has stepped back from the brink of financial demise and is now on a path towards fiscal sustainability. Over the last three years, the City has implemented measures to address growing budget deficits including pension and healthcare reform and has reduced the size of its civilian work force by 5,300 positions from its peak in 2007-08. Combined with the slow but steady economic recovery, the projected deficit for 2013-14 was reduced by 80 percent from $1.07 billion to $216 million.

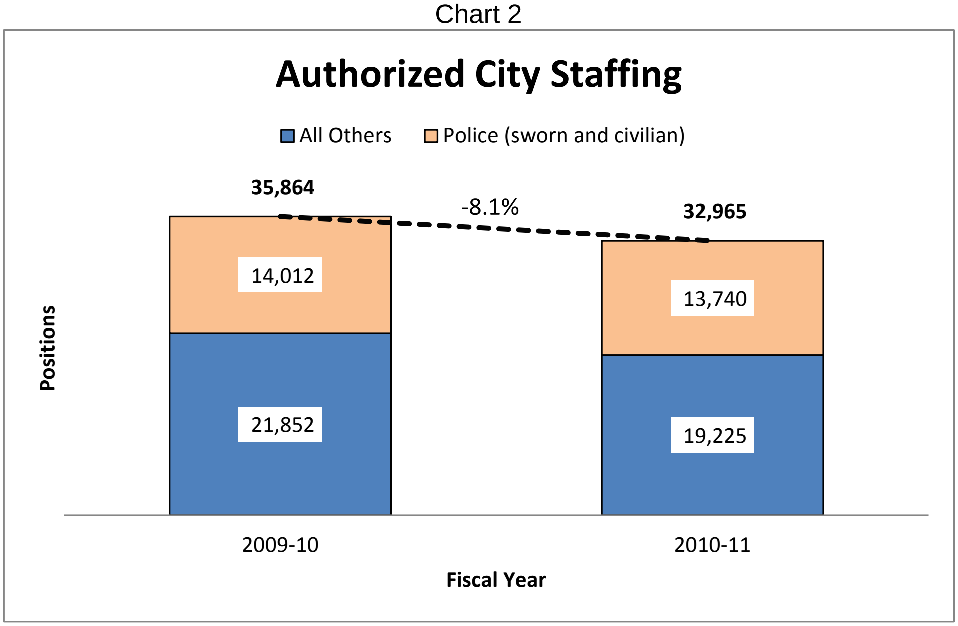
STEP 1: FIRST RESPONSE – MANAGING THE CRISIS

Throughout 2009-10, the City of Los Angeles was in a constant state of budget adjustments to close a budget gap of $466 million, caused in part by an enormous revenue shortfall that continued to widen as the year progressed. In line with the financial recovery process developed by the Government Finance Officers Association (GFOA), the City's initial recovery steps were focused on getting through the immediate budget crisis and creating a bridge towards sustainable reforms.

Towards this end, City leaders implemented a number of extraordinary budget austerity measures to provide immediate one-time savings including the implementation of mandatory and voluntary furlough programs, limiting travel and equipment expenditures, and deferring cost of living increases and other employee benefits to later years. During this time, the City also initiated the Modified Coverage Plan for the Fire Department designed to maintain fire and emergency medical services in each of the local fire station service areas through the rotating and periodic closing of fire resources.

Other drastic measures implemented to produce ongoing savings were focused on reducing the size of workforce. These measures included the elimination of the Human Services Department and the Environmental Affairs Department, the implementation of an early retirement incentive program (ERIP), hiring freezes, and layoffs. Furthermore between February 2010 and June 30, 2010, 428 employees were transferred to proprietary or special-funded positions. As a result of these actions, in less than nine months, these actions reduced staffing levels by close to 3,000, or 8.1 percent.

Chart 2



Nevertheless, due to a precipitous drop in revenue, the belt tightening and reductions alone could not bring the budget back in balance. Ultimately, the City had to rely on its Reserve Fund to end the year balanced.

Despite the reduction in services to the public and tangible hardships endured by city employees and their families, given the budget outlook for 2010-11 and beyond, it was evident that more austerity measures and structural reforms would be needed to address the City's short-term and long-term financial challenges. Rating agencies confirmed the hard road ahead by downgrading the City's bond ratings twice based on the City's fiscal outlook. Furthermore, the year-end transfer from the Reserve Fund and the fact that the City had failed to comply with its own Reserve Fund policy was a contributing factor to these downgrades. In its ratings statement to the city, Fitch noted that its downgrade reflects "the anticipated drawdown of general fund reserves to a very low level and the likelihood that it will take the city some years to rebuild these reserves."

RATING AGENCY ACTIONS

Fitch Ratings: On November 24, 2009, Fitch Ratings downgraded the city's General Obligation Bond rating from “AA” to “AA-“, and kept the city on "negative" credit watch. This action was followed by another downgrade by Fitch on April 16, 2010 moving the City's General Obligation ratings from "AA-" to "A+". Pursuant to a global recalibration of municipal ratings, the City's ratings were revised to “AA-“on April 30, 2010. However, this revision did not constitute an upgrade.

Moody's Investors Service: On February 17, 2010, as a result of the projected depletion of the City's reserves, Moody's Investors Service reduced its opinion of the City's finances from "stable" credit watch to "negative" credit watch, ultimately leading to a downgrade of the City's General Obligation Bond rating from “Aa2” to “Aa3”. Pursuant to a global recalibration of municipal ratings, the City's ratings were revised to “Aa2“on April 16, 2010. However, this revision did not constitute an upgrade.

Standard and Poor's: On February 23, 2010, Standard and Poor's downgraded the City's General Obligation Bond rating from “AA” to “AA-“, with a stable outlook.

Table 1
Rating Agency Actions on General Obligation Bonds in 2009-10

	Moody's	S&P	Fitch
Start of 2009-10	Aa2	AA	**AA**
November 2009 Downgrade	-	-	**AA-**
February 2010 Downgrade	Aa3	AA-	**-**
April 2010 Downgrade	-	-	**A+**
End of 2009-10 based on Recalibration (Not an Upgrade)	**Aa2**	**AA-**	**AA-**

The collective actions by the rating agencies served as a clear reminder that crisis management alone, while offering immediate budgetary relief, was not enough for the City's financial recovery. In order for the city to improve its fiscal health it had to implement strategic reforms in areas with the most significant costs: salaries, pensions, healthcare, and workers' compensation. Furthermore, the city had to make a commitment to follow sound financial polices beginning with replenishing its reserves. This recognition is what has allowed the city to move beyond crisis management and towards a more strategic and balanced approach towards budgeting and financial planning.

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STEP 2: REFORM – FROM CRISIS MANAGEMENT TO STRATEGIC PLANNING

The City's financial recovery process has been defined by multiple achievements and setbacks. The adoption of the Three-Year Plan is a significant early achievement and important step. Through the development, adoption, and implementation of this plan, the City not only recognized the need for a roadmap to lead it towards fiscal sustainability, it identified a path. Moreover, it moved the City from crisis management to strategic planning. At the core of the Three-Year Plan were the following five guiding principles:

I. Adhere to responsible management and fiscal practices by maintaining a healthy Reserve Fund, pursuing ongoing solutions to our deficit instead of one-time fixes, and preparing for unpredictable liabilities.

II. Focus on core services by prioritizing, implementing efficiencies, and eliminating redundancies.

III. Pursue alternative service delivery models that reduce the costs of providing quality services while maintaining or even enhancing services.

IV. Maintain a sustainable workforce through a fair and equitable compensation system, managed healthcare costs, and controlled pension obligations.

V. Raise new revenues through the support of voters and through efforts that grow the economy and stimulate job creation, while protecting and maximizing existing revenue sources through a responsive collection system and full-cost recovery of services rendered.

Over the past three years, while operating under the guiding principles of the Three-Year Plan, the City implemented substantial cuts and major reforms to address the structural budget deficit. A few of the achievements under the Three-Year Plan and reforms in progress are as follows.

<u>ACHIEVEMENTS</u>

ADHERE TO RESPONSIBLE MANAGEMENT AND FISCAL PRACTICES

- Reached a funding level for the Reserve Fund of 5.37 percent of the General Fund which is over the five percent threshold established by the City's Financial Policies.
- Placed a cap on the City's solid waste life-line program following a review of eligibility requirements and program participants.

FOCUS ON CORE SERVICES

- Implemented the City's human resources consolidation plan to strengthen human resources capacity citywide and reduce redundant work.
- Implemented the consolidation of the Office of Public Safety into the Police Department to improve the deployment of safety and security resources citywide.
- Transferred the City's asset management function from the General Services Department to the City Administrative Officer to identify opportunities, provide the framework and perform preliminary analysis on various asset management planning needs in the City.
- Reduced the City's fleet.

PURSUE ALTERNATIVE SERVICE DELIVERY MODELS

- Expanded the City's capacity to provide services at its animal care centers and increased pet adoptions by transferring the management and operation of an animal care center to Best Friends, a non-profit organization.
- Initiated a solicitation process to select the most cost-effective management services of the Los Angeles Convention Center.

MAINTAIN A SUSTAINABLE WORKFORCE

- Established new pension tiers for future civilian and sworn employees that increase the retirement age and more equitably shares future funding risks between employer and employees while still providing quality retirement benefits.
- Continued the Managed Hiring Committee process to mitigate labor cost increases including salaries and benefits.
- Reduced the starting salaries for police officers by 20 percent.
- Expanded the use of part-time traffic officers to increase traffic enforcement activities in a cost-effective manner.
- Increased pension and retiree healthcare contributions from employees to 4 percent from zero.
- Reduced the size of the workforce by 5,300 positions.

RAISE NEW REVENUES WHILE PROTECTING AND MAXIMIZING EXISTING SOURCES

- Established a feasible target for the collection of aged receivables and presented a plan of action to improve the City's ability to collect on these accounts.
- Reduced the General Fund subsidy for special funded programs.
- Increased the City's share of ongoing revenues from the former Community Redevelopment Agency.
- Eliminated the roll-over policy in the Neighborhood Council funding program.
- Made El Pueblo a self-sustaining enterprise.
- Made golf a self-sustaining enterprise with no General Fund subsidy.

REFORMS IN PROGRESS

ADHERE TO RESPONSIBLE MANAGEMENT AND FISCAL PRACTICES

- Develop and adopt a Budget Stabilization Fund policy.

FOCUS ON CORE SERVICES

- Conduct a third-party analysis of the constant staffing deployment model currently utilized by the Los Angeles Fire Department to determine the most efficient and effective deployment of fire department resources citywide.

PURSUE ALTERNATIVE SERVICE DELIVERY MODELS

- Fund and implement citywide system upgrades in the most-cost effective manner based on a strategic plan for Information Technology Infrastructure that prioritizes the needs of the City.

MAINTAIN A SUSTAINABLE WORKFORCE

- Bring balance to the City's compensation structure for all City employees.
- Stabilize healthcare cost increases by employees paying 10 percent of healthcare premiums.

RAISE NEW REVENUES WHILE PROTECTING AND MAXIMIZING EXISTING SOURCES

- Create a new economic development model to provide greater flexibility and opportunities for revenue growth and allow for an enhancement of citywide economic benefits.
- Create new Economic Development Department, with the larger economic goals of creating new jobs, attracting new business and industries, maximizing the City's assets, and increasing General Fund revenue.

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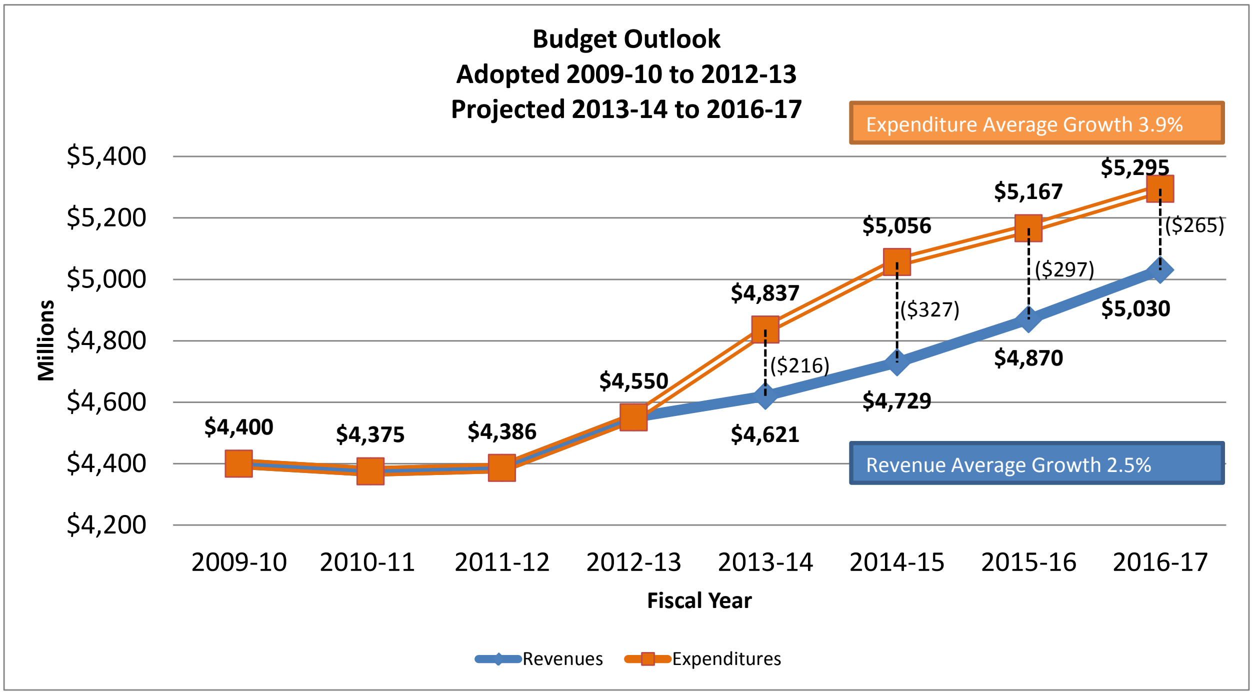
CLEAR AND MEASURABLE RESULTS

As the primary indicator of whether the City has achieved fiscal sustainability, the current Budget Outlook clearly demonstrates that the City is far from reaching this goal.

Chart 3



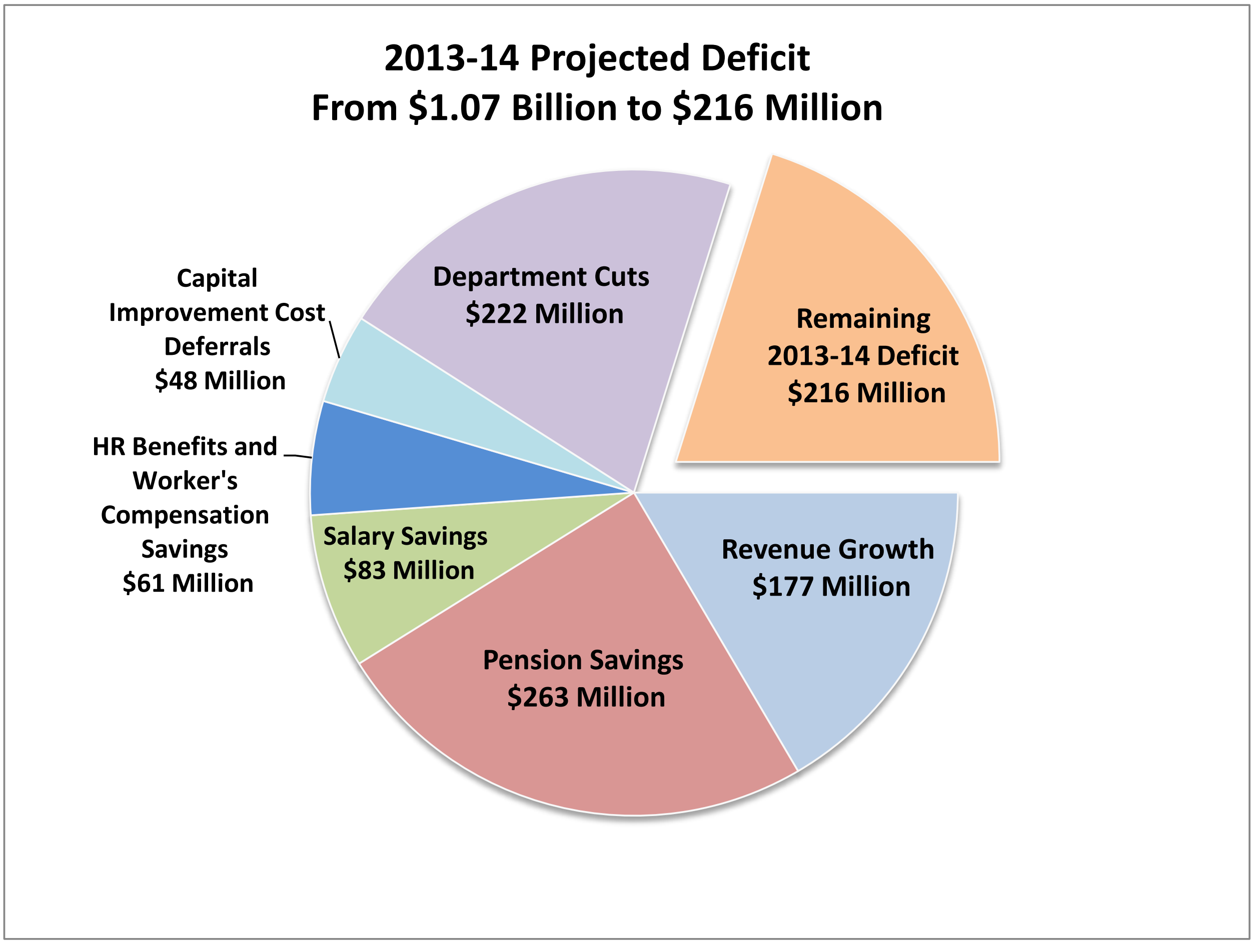
The City's Four Year Budget Outlook will be updated as part of the Mayor's Proposed Budget for Fiscal Year 2013-14 as a result of new retirement costs illustrations to be provided by LACERS and LAFPP.

Nevertheless, in a short amount of time, the City has achieved clear and measureable results in addressing its budget deficit. Based on the most recent data available regarding revenue projections and expenditure increases, this Office is anticipating the deficit for fiscal year 2013-14 to be approximately $216 million, an 80 percent decrease from the prior projection of $1.07 billion. Most significantly, these decreases are the result of savings achieved and/or cost avoided in the following areas:

- Employee pension reform
- Expenditure reductions to departments
- Salary savings through workforce reductions
- Healthcare benefit plan design changes

Needless to say, improving revenue growth has also played a major role in addressing the deficit as has the short-term deferral of capital improvement projections. The following chart and discussion provides greater detail on each of these areas.

Chart 4



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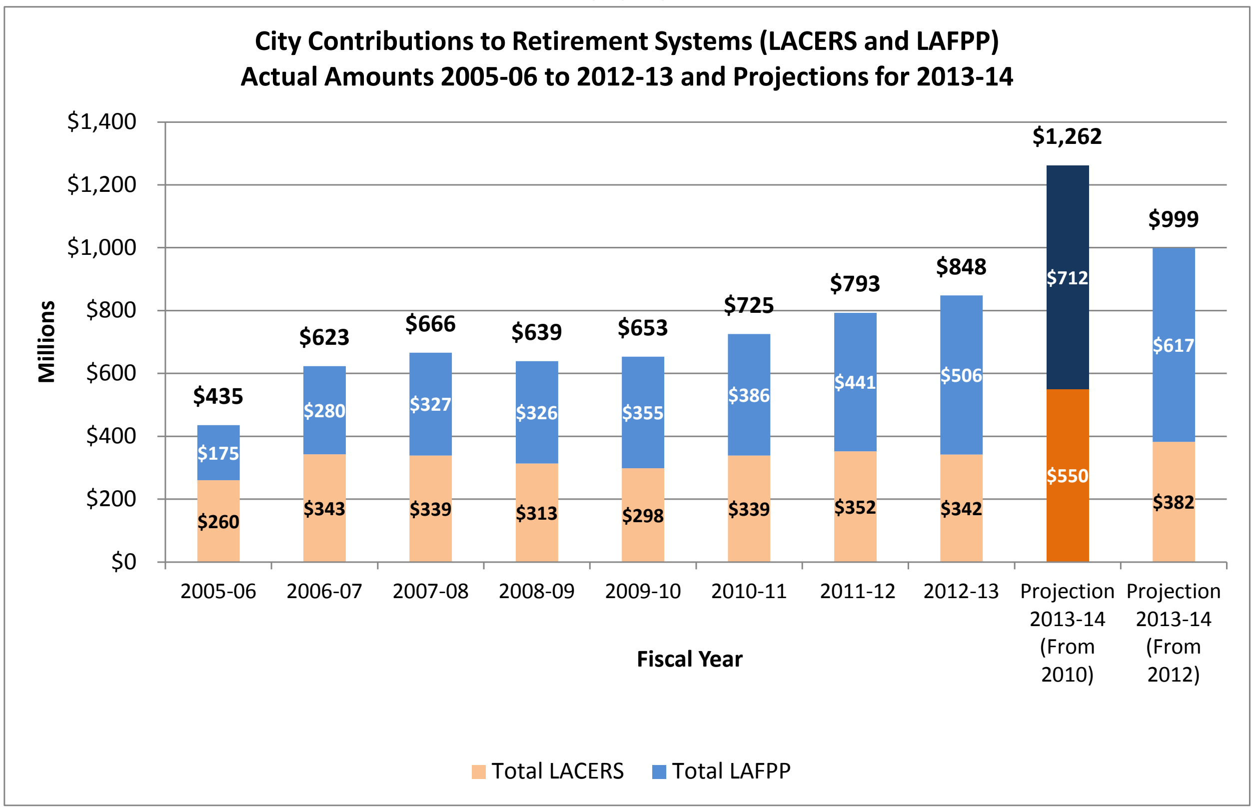
SAVINGS IN EMPLOYEE PENSIONS

As one of the City's most significant cost drivers, the City has been actively pursuing efforts to contain and reduce retirement costs with both of the City's pension systems: Los Angeles City Employees' Retirement System (LACERS) and the Los Angeles Fire and Police Pension System (LAFPP). Through the combination of cost methodology modifications, improved investment returns, plan design changes, and workforce size reductions, the City has been able to substantially decrease its anticipated pension contribution for 2013-14. Based on the illustrations provided by the two pension systems in 2012, the projected cost for 2013-14 has been reduced by $263 million when compared to projections from 2010.

Chart 5



A key component of these savings were methodology modifications by the retirement systems including changing the asset smoothing method to reduce volatility of future contributions, amending the manner in which extraordinary losses or gains in the market value of assets are recognized, and approving a phased-in approached to the lowering of investment return assumptions. The estimated savings for the City contribution as a result of these modifications is $125 million for LACERS and LAFPP.

Another important factor resulting in the reduced rate of growth in the City's contribution rates is the improving economy. The economic recovery in the financial markets over the last three years has improved investment returns for both pension systems thereby increasing the asset values of the systems and decreasing the City's projected contribution rates.

However, the most notable pension reforms that have helped reduce the City's projected pension contribution, are the plan design changes achieved through collective bargaining, voter initiative, and management authority. Specifically, the City was able to reach agreement with labor unions on increasing employee contributions toward pension costs for all existing civilian employees by 1 to 4 percent. Additionally, for employees hired prior to 1984, the City subsidy of half of the age-rated retirement contribution was eliminated. For some employees this change resulted in as much as a 4 percent increase in their pension contribution rate. For this group alone the City saved $7 million. For all employees hired after 1984, the contribution rate was increased from 6 percent to 7 percent, resulting in reducing the City's pension costs by $17.6 million through 2025.

Through the City initiative process, in 2010 the City obtained voter approval of a new tier of retirement benefits for sworn employees hired after July 1, 2011. Combined with 20 percent reduction in the starting salaries for new police officers, the new pension tier is anticipated to save approximately $173 million over 30 years for every 1,000 officer hired, while retaining the City's ability to successfully recruit and retain critical public safety personnel. The primary modifications generating the savings were increasing the employee contribution rate to 11 percent and altering the retirement factor to require employees to work longer to receive at least a 50 percent retirement.

Finally, following the success of the ballot initiative and pursuant to a proposal by the Mayor, in 2012 the City Council and Mayor adopted a new civilian retirement tier for employees hired after July 1, 2013. This new tier is expected to reduce future pension costs by a minimum of $4 billion over 30 years through the following plan design changes:

1) Increasing the retirement age from 55 to 65 to reflect growing trends that people are living longer;
2) Capping the maximum retirement allowance at 75 percent of an employees' final compensation instead of up to 100 percent;
3) Eliminating pension spiking by setting an employees' pension on a 3-year salary average as opposed to one year;
4) Modifying disability retirement benefits to avoid spikes in the number of disability retirements;
5) Eliminating the current 50 percent survivor continuance benefit and providing employees' with an option to purchase a continuance for their surviving spouse/domestic partner;

6) Capping future retiree annual cost-of-living adjustments to 2 percent with the option for the employee to purchase up to 3 percent;
7) Requiring employees pay the full cost of purchasing service credit and limiting the number of years purchasable to 4 years maximum; and,
8) Controlling healthcare costs by limiting the benefit to the employee only.
9) Requiring employees to share half of the costs of future unfunded liability.

It is important to note that the current illustrations on the City's projected pension contributions have not factored in the anticipated savings from either the new sworn tier or the new civilian tier. As such, based on current assumptions with respect to investment returns and salary increases, the potential for additional pension savings is high. LACERS and LAFPP have been requested to provide updated illustrations that will account for the new pension tiers.

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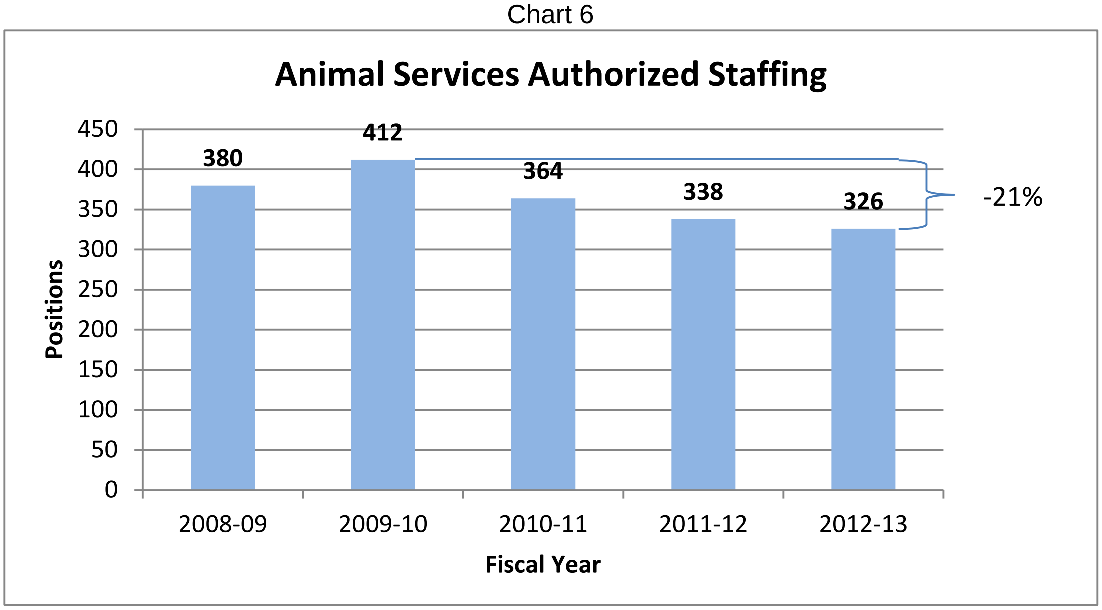
REDUCTIONS TO DEPARTMENTS

Doing more with less" has become the mantra for most City departments throughout the economic downturn and recovery, specifically with regards to staffing levels and equipment. Due to the imbalance between revenues and expenditures, departments have been instructed to find efficiencies, cut contracts, reduce payrolls, forgo investments in technology, and live within their means, all while continuing to deliver core services. Despite this impossible task, departments have responded by prioritizing services and offering solutions to reduce their General Fund base budgets by about $222 million by asking themselves the following central questions:

- Is the service core or discretionary?
- If discretionary, should we be doing these activities in light of fiscal constraints?
- If yes, should be we doing these activities to the current level? If not, what level is appropriate?
- Can we provide a similar service but under a different model of service delivery? If so, what service delivery model makes the most sense and is the most cost effective?
- Are there opportunities to improve efficiencies or achieve cost savings by consolidating services/departments?

Nevertheless, given the substantial reductions endured by departments, there is no question that even core services have felt the impact of reductions.

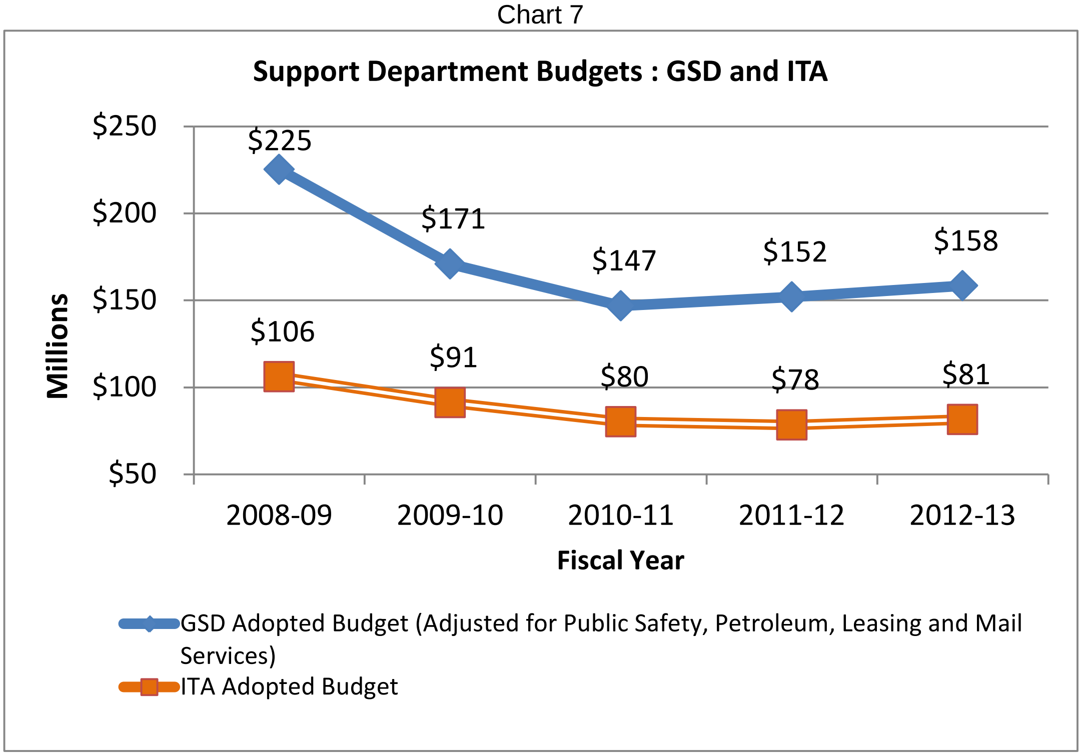
Chart 6



Since 2009-10, the staffing levels at the Animal Services Department have been reduced by 21 percent; a reduction that is far greater than the citywide reduction of 14.4 percent. The downsizing of this department resulted in fewer hours for the public but without a corresponding decrease to the number of staff required to run a shelter. Ultimately, the reduced staffing levels proved insufficient to keep all existing shelters opened. Without the innovative collaboration with Best Friends which assumed operation of the Northeast Valley Animal Shelter, the City would have had to close this shelter indefinitely.

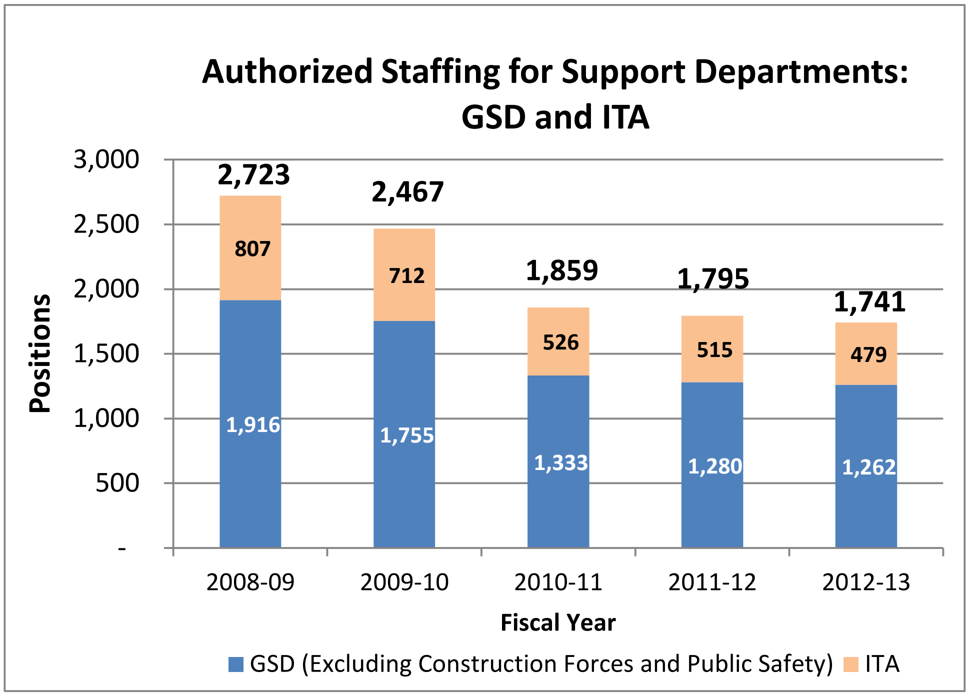
Animal Services is not alone in the reductions it has absorbed. Almost every department has experienced similar decreases in the last three to four years. Compounding the direct cuts departments have taken are the reductions that the support departments of Information Technology Agency (ITA) and the General Services Department (GSD) have endured. Over the years, these two departments have been at the forefront of examining innovative ways to meet the demands of their customers. However, the significant reductions in staff and funding for departments over the last several years have greatly impacted the ability of ITA and GSD to be the supporting entities they once were. The following charts illustrate the reductions GSD and ITA have absorbed in both dollar value and position count.

Chart 7



To ensure service continuity and mitigate risks associated with infrastructure, equipment, or system failures, the City must begin to make strategic investments in these areas. These investments will improve the effectiveness of services, enhance productivity, and avoid costly repairs and replacements of entire buildings, and/or equipment.

Chart 8



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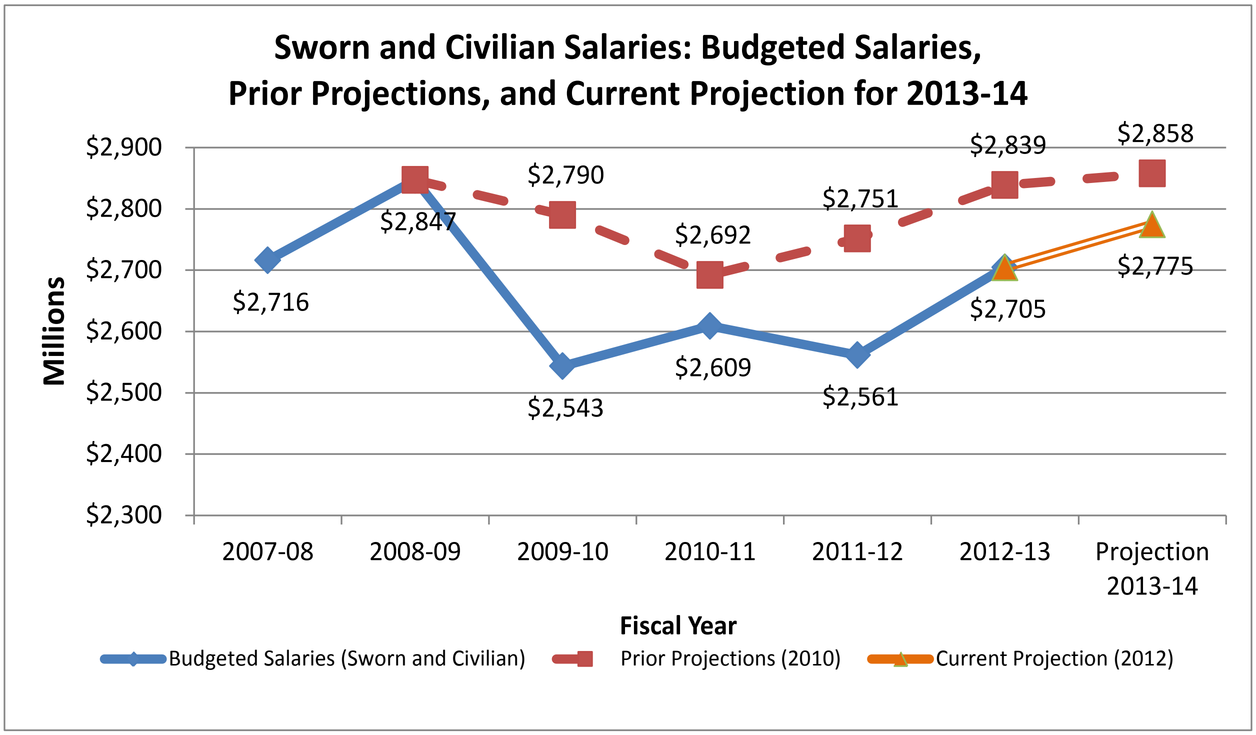
SAVINGS IN SALARIES

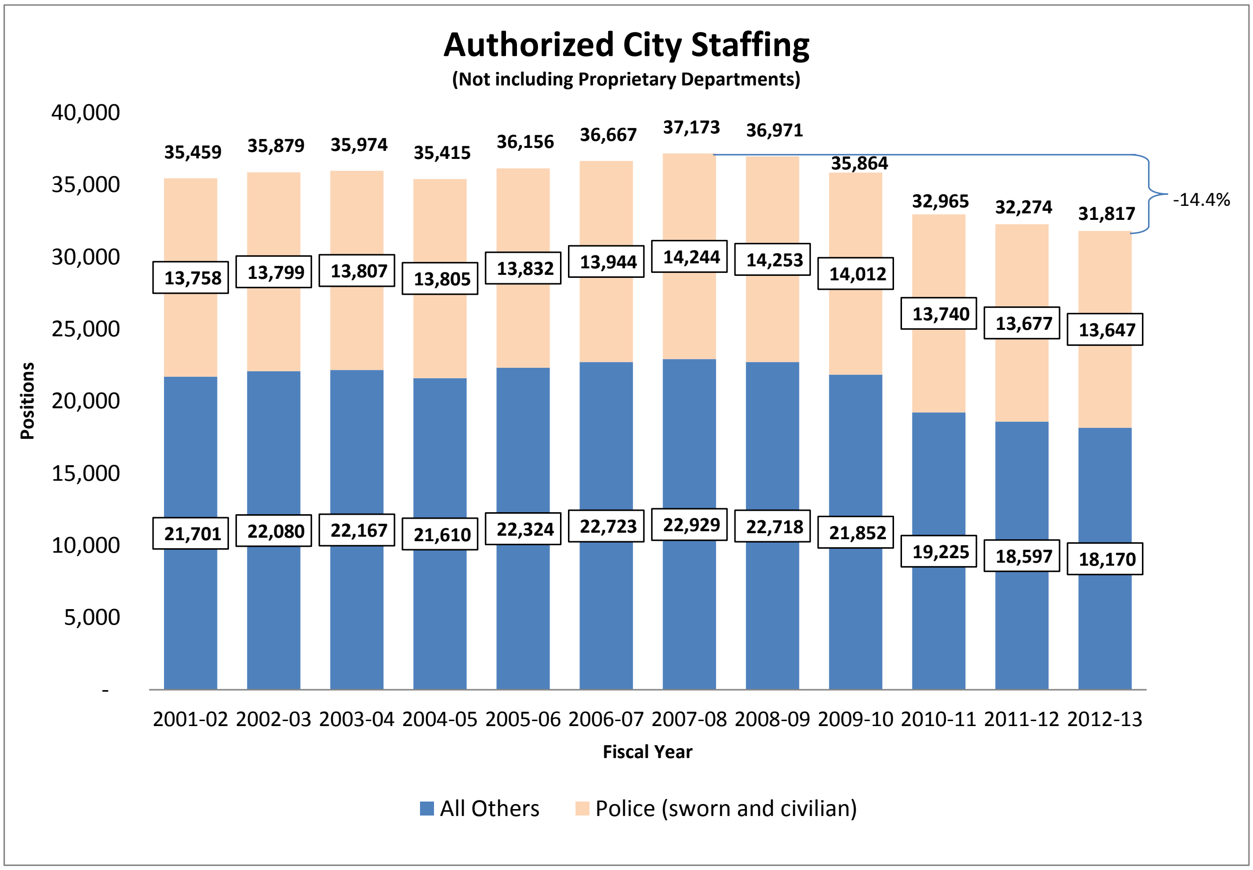
The decisions resulting in the huge base wage movement for members of the Coalition and City Attorneys were made when economic times were better. Nonetheless, these decisions continue to impact the City today. The most successful method by which the City has been able to curtail the projected increase to the General Fund payroll has been through the systematic reduction of the workforce.

Chart 9



The majority of the salary savings achieved thus far is directly tied to the reduction in the workforce through the early retirement incentive program and the elimination of filled and vacant positions. Combined with a managed hiring process, since 2007-08, the City has eliminated more than 5,300 positions, a reduction of 14.4 percent, to bring the number of authorized staffing to its lowest point in decades.

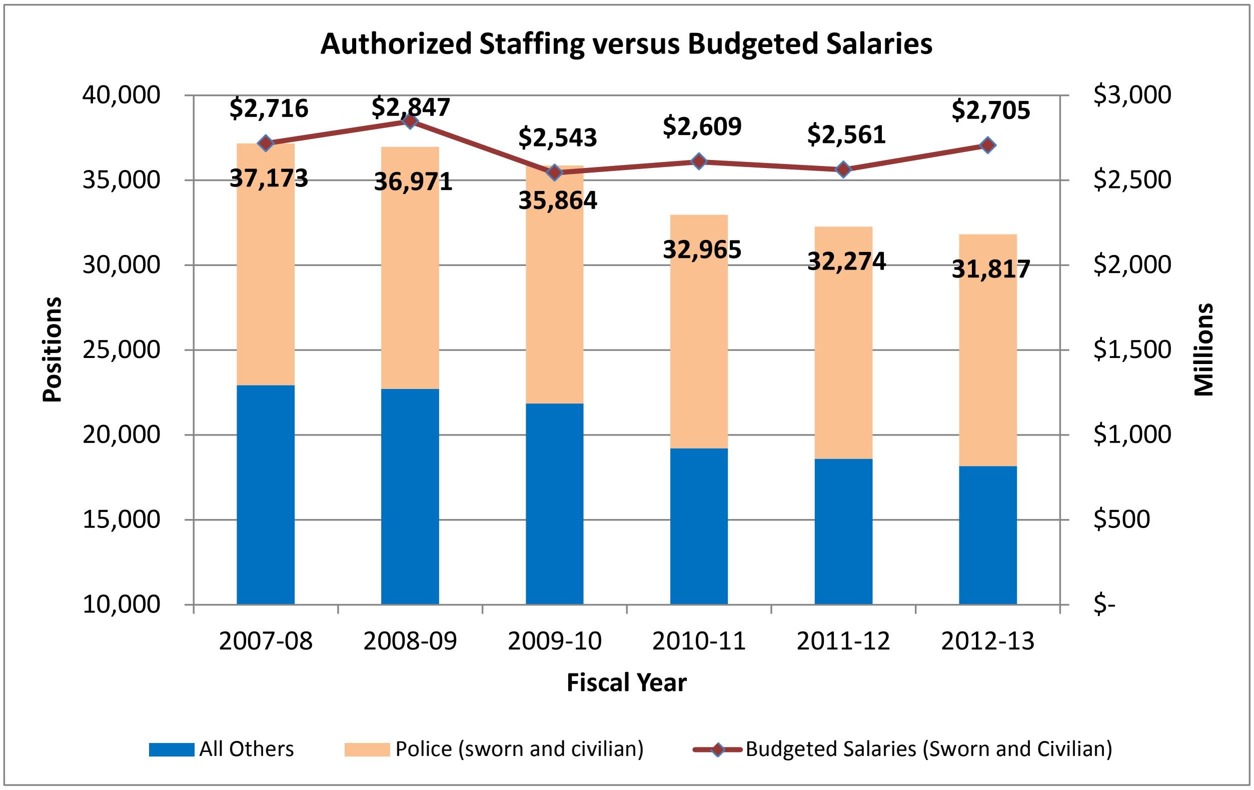
Chart 10



Such a large reduction in the City's workforce, while necessary to balance the budget, has not come without an impact to the services the City delivers. For example, to cope with a reduced civilian workforce in the Police Department, sworn personnel have assumed some responsibilities at the City's jails that would otherwise be performed by civilian employees. Also, for several departments, a backlog of service requests, from the public and other departments, has been on the rise.

However, even with such a large reduction in positions, as shown in the following chart, the total salaries for 31,817 positions in 2012-13 was only $11 million less than the total salaries for 37,173 positions in 2007-08. For this reason, the City must continue its efforts to negotiate for labor concessions that will reduce the cost of the workforce without further reducing the City's ability to provide services. However, should additional workforce reductions be required, the City should make these reductions in a manner that reflects its priorities and to the extent possible, look for alternative service delivery models to continue providing a service.

Chart 11



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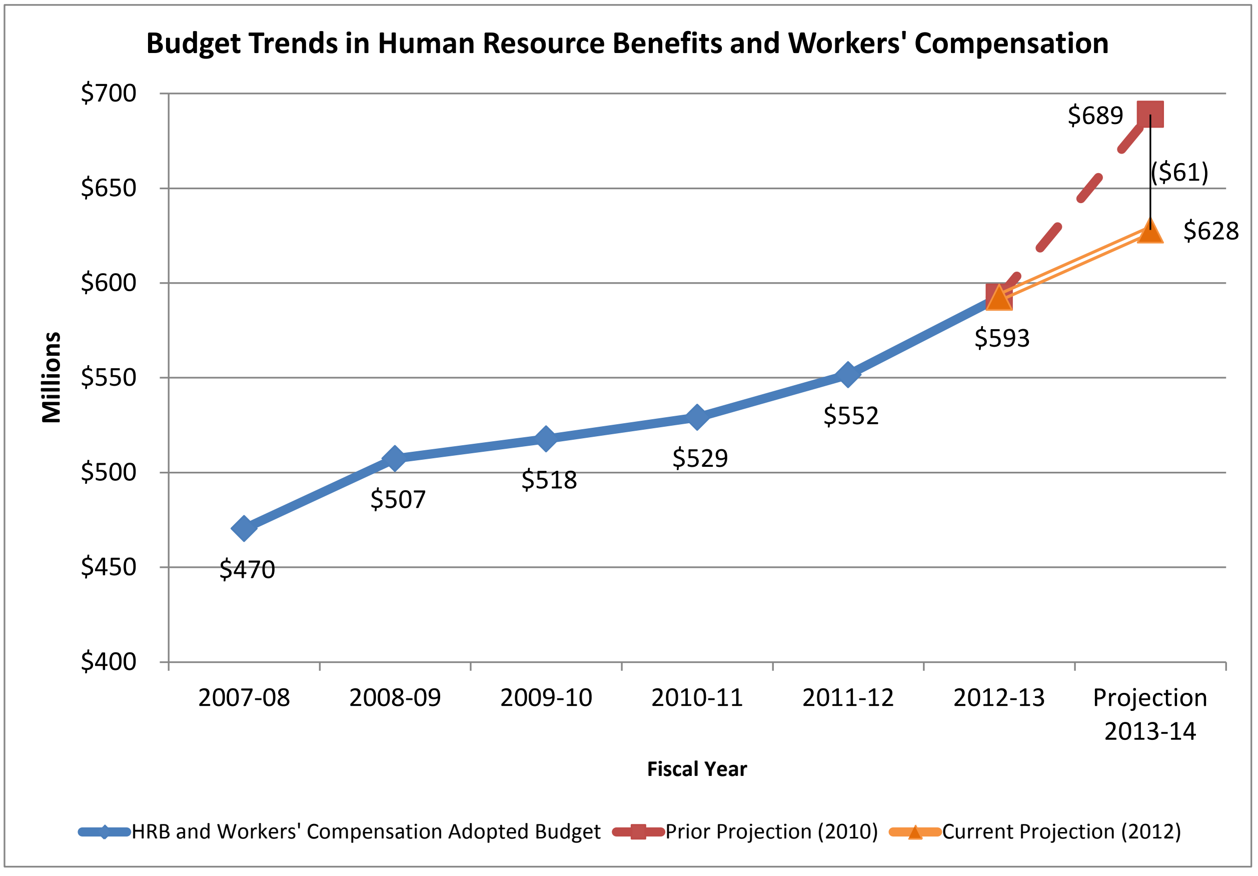
HUMAN RESOURCE BENEFITS AND WORKERS COMPENSATION SAVINGS

In 2010-11, both the Human Resource Benefits (HRB) and Workers Compensation accounts experienced decreases in their costs. However the decreases in workers' compensation have been short-lived. Since that year, expenses for worker's compensation have been trending up. In contrast, projected expenditures in HRB have been trending down. The net impact is a savings of $61 million.

Chart 12



Structural reform of the cost sharing methodology for the City's healthcare program has been essential in maintaining this critical employee benefit without further reductions to the workforce and essential public services. Increasing the employee share of the cost of healthcare through employee contributions to premium for one labor bargaining unit has resulted in $3 million in annual savings. If every employee contributed 10 percent of health premiums, the annual savings to the City would be $40 - $50 million.

With regard to rising workers' compensation costs, the California Workers' Compensation Institute and the American Insurance Association report that the average medical costs per claim for all California self-insured public entities has increased 27%

over the past five fiscal years. The culprits for driving medical costs up include more use of outpatient services, increases in pharmaceutical costs, increases in inpatient surgery costs and increased use of pain medications. Statewide reform will be necessary to bring these costs back under control in the absence of a significant reduction in the worker injury rate. At the local level, the City must initiate a process to reduce the City's workers' compensation rate to the State rate. Although the State has one of the most expensive rates nationwide, it is lower than the rate paid by the City.

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CAPITAL IMPROVEMENTS COST DEFERRALS

Although not recommended as a long-term strategy, the deferral of capital improvement projections has provided much needed short-term budget relief to the City during the economic turmoil. Since 2009-10, the City has only set aside an average of $6.5 million to fund critical infrastructure items that could not be deferred such as citywide asbestos removal, elevator and roofing repair, contaminated soil removal and State required fire, life, safety building systems support.

Furthermore, the City took steps to rein in municipal facilities projects that had already been authorized to avoid increased debt service and maintenance costs. For example, in 2009-10, the City placed a number of authorized projects on hold. These projects total $94.18 million and included City yards, a neighborhood city hall, the relocation of the Urban Forestry Division, and three pool projects.

It should be noted that over the years, and to the extent possible, the City has continued to invest in new and renovated facilities and replaced old high-maintenance police, fire, library, animal care, and recreational facilities with new ones through the use of monies from voter-approved bond programs. Because of these investments and the relocation of employees to newer facilities, the City has been able to mitigate the lack of deferred maintenance expense and costly repairs at some of its outdated facilities by a small measure. However, the ratio of new versus older facilities is small and the City will need to continue to invest additional dollars in deferred maintenance as well as start a proactive preventative maintenance program for the new facilities to ensure an adequate life cycle for these new facilities.

In addition to new facilities, the City’s roadways have continued to be an area of investment even during the economic downturn. Since 2009-10, the City's pavement preservation program has seen a steady increase in the number of miles preserved through resurfacing and reconstruction.

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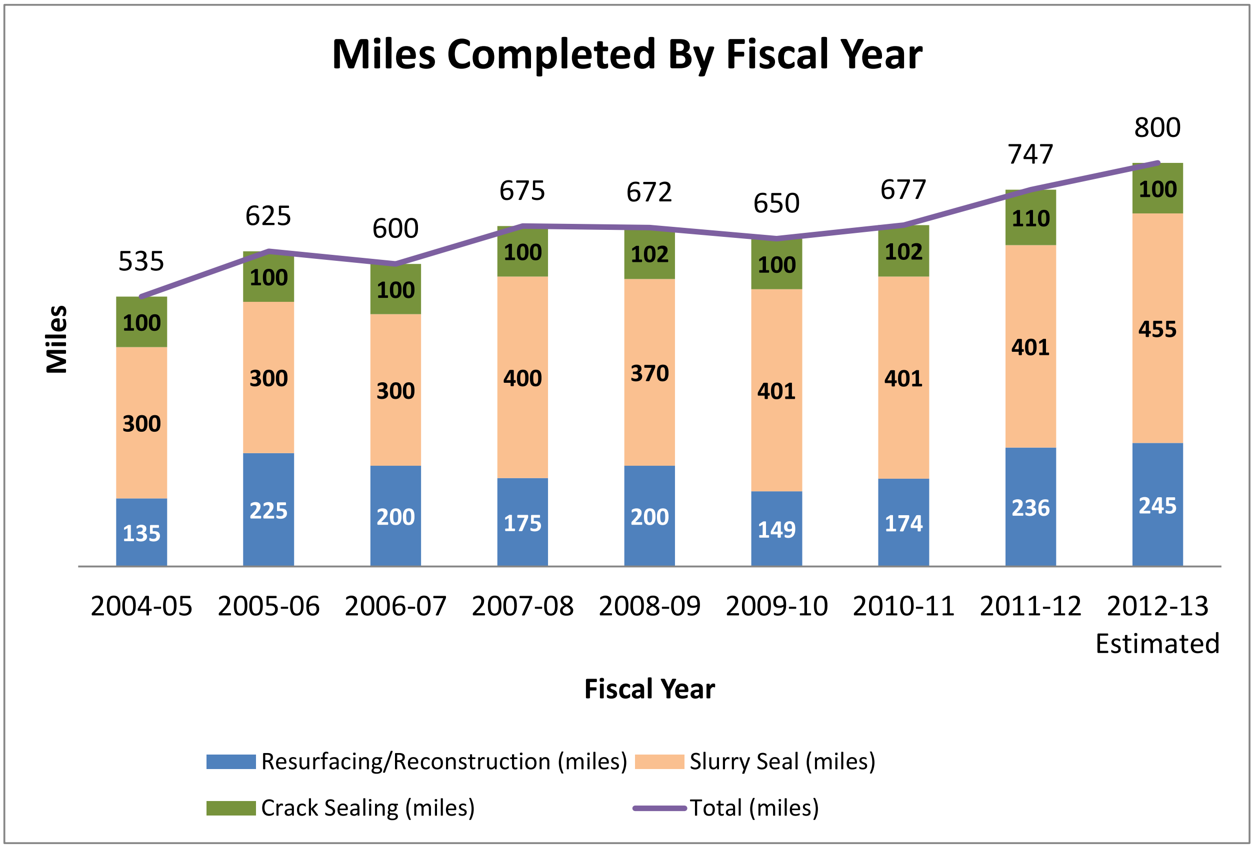
Chart 13



The increased number of miles preserved in the last three years has been made possible by the availability of non-General Fund resources including over $63 million from the California Transportation Bond Program (Prop 1B) and over $40 million from the City's share of Measure R funding. The availability of these funds allowed the pavement preservation program to fill a gap created by the loss of General Fund dollars which in 2006-07 totaled $32 million. In contrast, the budgeted General Fund amount in 2012-13 for pavement preservation is only $1.1 million.

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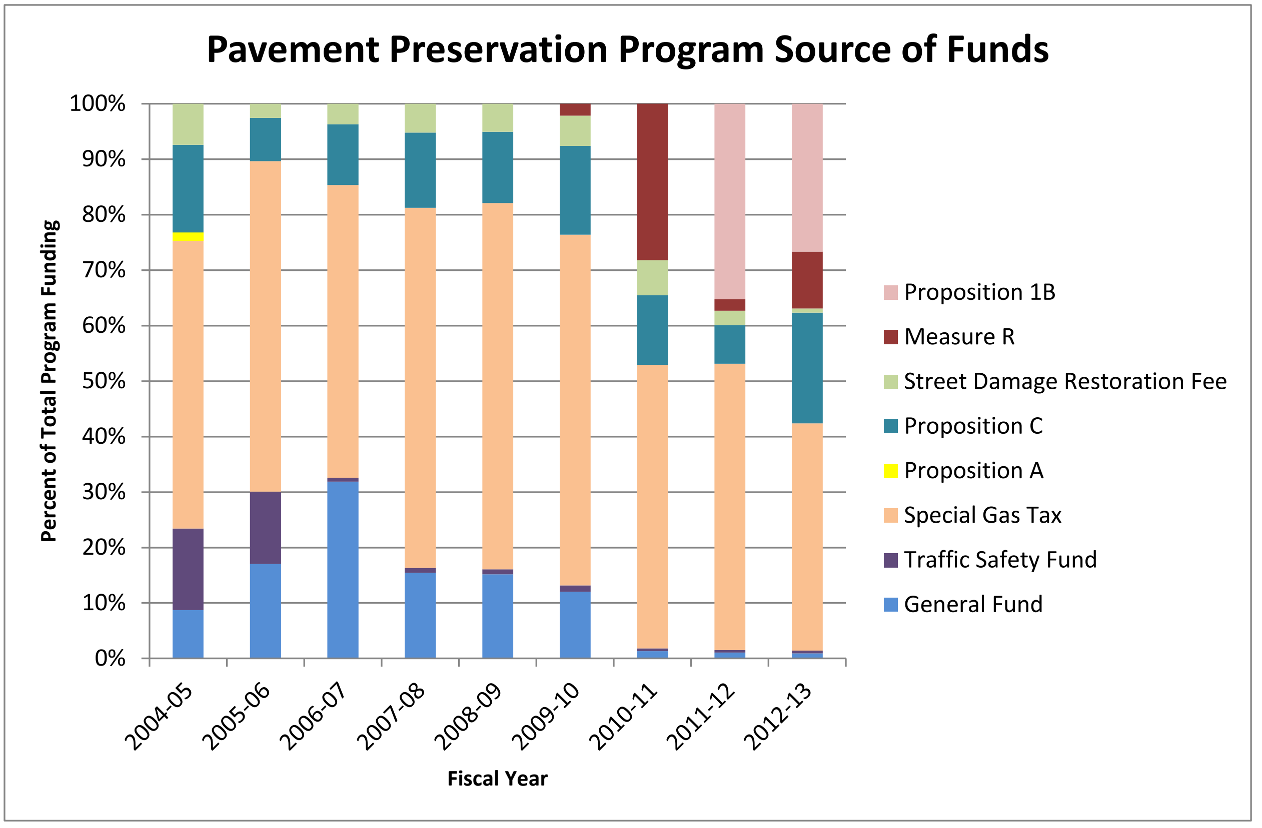
Chart 14

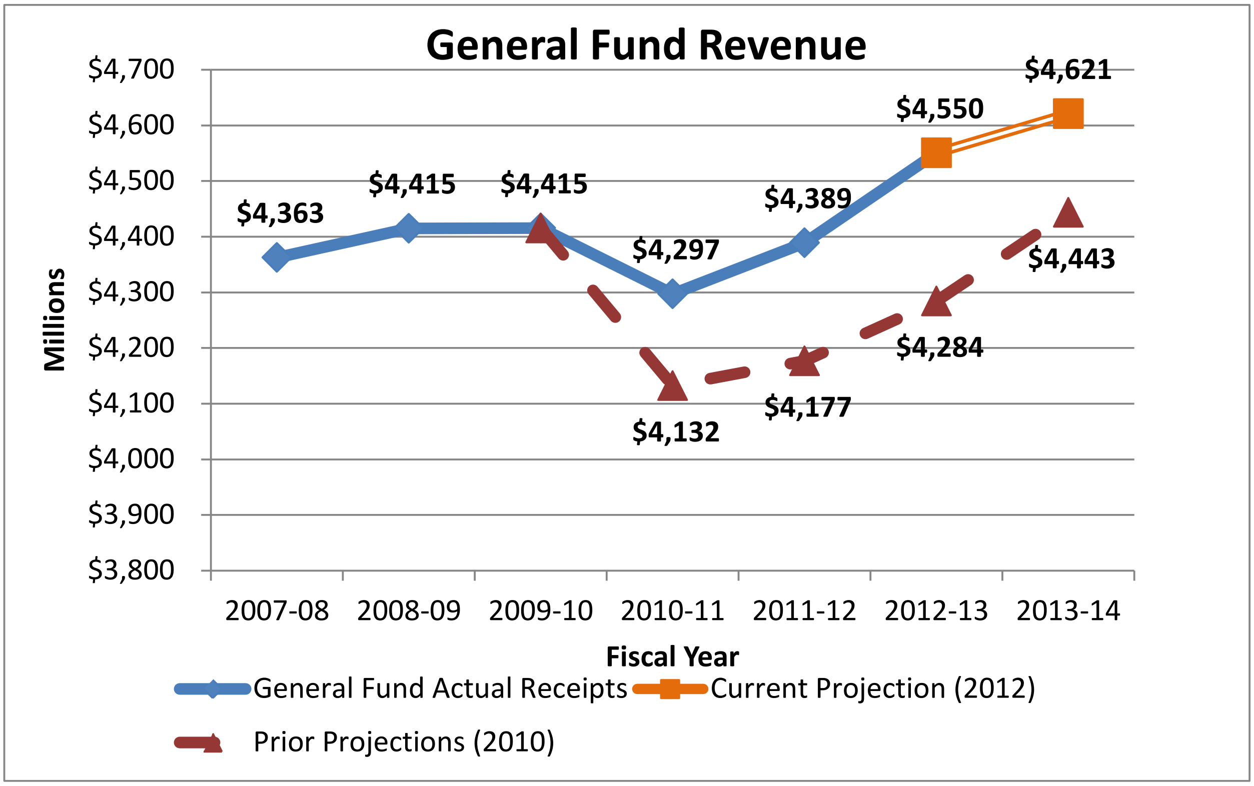


With the final draw down of Prop 1 B funds complete, the new challenge for the City is identifying funds to replace the $63 million in Prop 1 B funds no longer available. Given the City's deficit, increasing the General Fund budget for street repairs to the level required to keep the program successful is not feasible. Measure R and Proposition C may provide some relief for 2013-14, however, the use of these funds for street reconstruction will limit the funds available for other longer-term City transportation projects. As the budget for 2013-14 is developed, the Mayor and the Council will need to prioritize street preservation against other transportation projects to determine the level of funding and the number of miles that will be completed in 2013-14. If appropriate funding cannot be secured, the number of miles preserved will decrease as will the condition of the City's streets.

Revenue Growth

The revenue projections developed in 2010 predicted a longer recession than what actually occurred. At that time, there was a real threat of a double dip recession based on the global economic crisis, the high unemployment rate, and the staggering number of foreclosures. The stabilization of revenues as shown in the 2012 projections and subsequent growth has resulted in a potential net gain of $177 million for 2013-14.

Chart 15



Contributing to this growth were two policy changes recently made. The combined impact of these changes is estimated to be $36 million in revenue to the City on an ongoing basis.

The first policy change pertains to transfer of surplus funds from the Special Parking Revenue Fund (SPRF); a special fund established to receive all revenue collected from parking meters and public off-street parking facilities for the purpose of funding the maintenance, operations, construction, and capital improvements tied to parking meters and public parking facilities. As recommended in the Three Year Plan, the Council and Mayor agreed to change the City's existing policy to allow for an annual transfer of funds from the SPRF to the General Fund without the need for a repayment, provided that all sufficient funds were left to pay for all obligatory expenses including the maintenance of existing parking assets. Based on current revenue and expenditure projections, the anticipated annual contribution from the SPRF to the General Fund is about $18 million.

The second policy change that is contributing to the increase in ongoing revenue to the General Fund stems from the dissolution of the Community Redevelopment Agency (CRA). The State's decision to eliminate community redevelopment agencies statewide, while denying the City access to the economic development and financing tools it traditionally used, resulted in the distribution of Tax Increment (TI) dollars to the City and other taxing entities like the school district. This legislative change is projected to provide a base amount of about $18 million in ongoing revenue to the General Fund.

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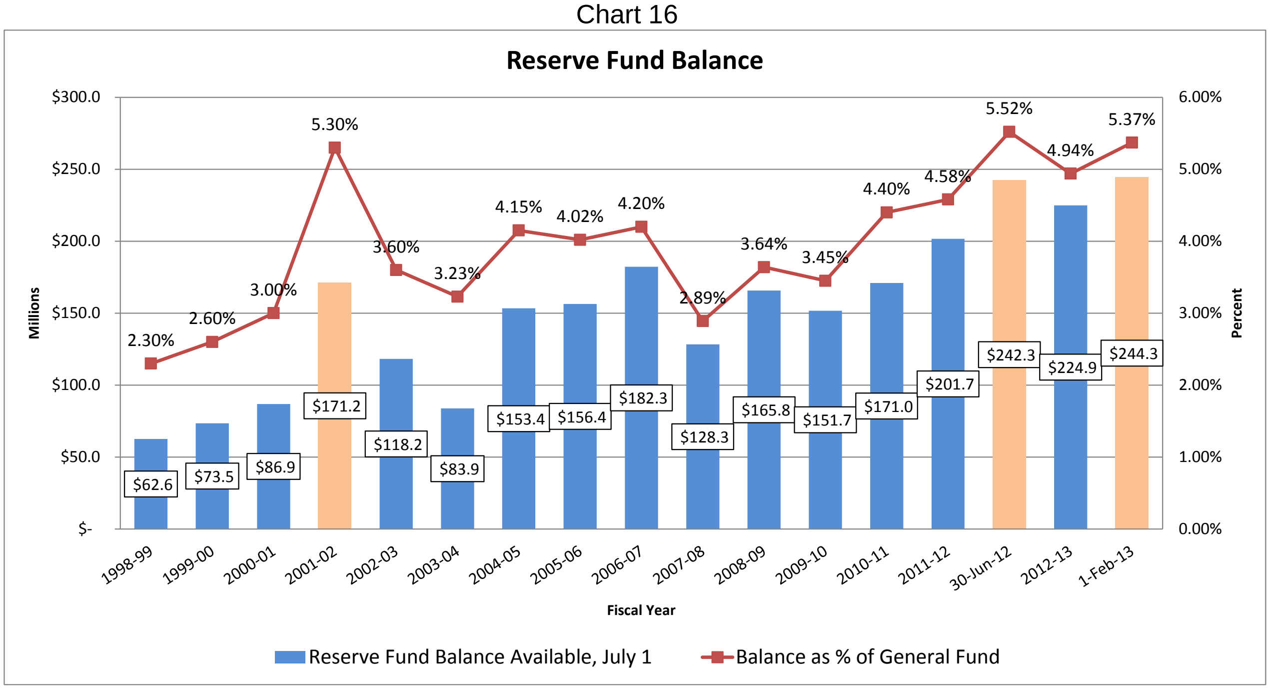
RESERVE FUND STATUS

The City's Reserve Fund policy sets a minimum funding level for the fund at five (5) percent of the General Fund budget; a goal it has failed to achieve since July 1, 2001. Following the City's need to transfer $132 million out of the Reserve Fund to close the 2009-10 budget, and the subsequent bond ratings downgrades experienced in 2010-11, the City made a commitment to rebuild its Reserve Fund. Moreover, the City set a goal of reaching a Reserve Fund level of at least five percent of the General Fund by the close of 2011-12.

As reported by the City Controller in the 2011-12 Preliminary Financial Report, at the end of fiscal year 2011-12 (June 30, 2012), the Reserve Fund cash balance was $242.3 million, or 5.52 percent of General Fund receipts. The significance of surpassing the minimum threshold level of funding cannot be overstated. First and foremost, reserves are maintained for unanticipated expenditures or revenue shortfalls, and to preserve flexibility throughout the fiscal year as was the case in 2009-10. The Reserve Fund also provides cash flow security for instances when revenue receipts are delayed. Finally, sufficient reserves are necessary to maintain positive bond ratings, thereby securing favorable interest rates for the issuance of general obligation bonds and all of our other General Fund debt. The following chart shows the history of the City's Reserve Fund which illustrates how the City has struggled to fund the Reserve Fund for over a decade until finally achieving its goal at the close of 2011-12.

Chart 16



Despite starting 2012-13 slightly back under 5 percent due to fund adjustments and re-appropriations, the current status of the Reserve Fund is $244.3 million, or 5.37 percent. The Reserve Fund status will continue to fluctuate throughout the year as Reserve Fund loans are repaid and other transactions occur. However, through the quarterly Financial Status Reports, this Office will ensure that the Reserve Fund levels remain above 5 percent by confronting any declines in revenues or expenditure increases head-on and without a Reserve Fund bailout.

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BUDGET STABILIZATION FUND STATUS

A Budget Stabilization Fund is funded with money set aside during periods of robust economic growth, or when revenue projections are exceeded to help smooth out years when revenue is stagnant or is declining. One-time savings are also an appropriate source of funds for a Budget Stabilization Fund. Benefits for adopting a Budget Stabilization Fund policy and building up the fund are as follows:

- Enforces spending discipline by setting aside money collected from revenues received during good economic conditions for use during years with lower growth or declining revenue;
- Protects against reducing services during a recession;
- Addresses temporary cash flow shortages, revenue shortfalls or unpredictable one-time expenditures;
- Mitigates long-term imbalances by curbing the use of unusual surpluses for ongoing expenditures;
- May reduce borrowing costs due to stronger bond ratings; and,
- Stabilizes finances during significant downturns.

As part of the 2009-10 budget process, the Mayor and Council established a Budget Stabilization Fund with an initial deposit of $500,000.

Given the size of the budget deficit for 2013-14, it is apparent that $500,000 is grossly insufficient for the City to depend on as a recovery tool from the financial distress. As such, this Office has recommended the establishment of a Service Protection Account within the City's Budget Stabilization Fund to shield critical services from further reductions in 2013-14. Moreover, this Office has recommended building up this account to at least $40 million by the end of 2012-13 from the recognition of unanticipated revenue as well as the one-time savings from departments.

Of this targeted amount, close to $33 million may be available for deposit into the Service Protection Account. These funds are comprised of $18 million in prior year encumbrances that this Office has recommended be disencumbered and $15 million from the Special Parking Revenue Fund that was transferred to the Reserve Fund early this year. The deposit of these funds into the Service Protection Account would bring the fund closer to the $40 million target while keeping the Reserve Fund above 5 percent. Furthermore, unanticipated revenues this year may help the fund reach $70 to $80 million. These one-time funds will bolster the City's ability to continue critical services next year, although the challenge to keep these services funded in 2014-15 will resurface.

Avoidance of Risky Financial Maneuvers

Just as important as the actions the City has taken to place its finances in order, are the risky financing options the City has avoided. These options include underfunding pension contributions and not prefunding other pension employee benefits.

In light of these efforts, the City of Los Angeles was recently recognized in a report on local government pension funding obligations released by the Pew Charitable Trust. The report demonstrates that while all pension funding levels were negatively impacted by the fiscal crisis of 2008, reducing funding levels from 79 percent funded in 2007 to 74 percent funded in 2009, it was the funding decisions of local governments before and after the fiscal crisis that predominantly determine a city's fiscal ability to meet its future pension and retiree healthcare obligations. It is in the area of fiscally responsible funding of its pension and retiree healthcare obligations that the City of Los Angeles has excelled in comparison to other municipalities.

While the City's success in the area of pension funding is laudable, it is in the area of funding retiree healthcare that Los Angeles sets the standard of excellence and best funding. Pew reports that Los Angeles has funded 55 percent of its retiree healthcare obligation as of 2009. This is compared to New York City at four percent Chicago at zero percent, Houston at zero percent and San Francisco at less than one percent. At 55 percent, Los Angeles had the nation's highest funded retiree health plan in 2009, and that funding level has increased to over 70 percent in 2012. The City's success in the area of pension and retiree healthcare funding, as documented in the Pew study, is the result of continued fiscal funding discipline and a series of aggressive and innovative cost-containment measures.

Other risky financial maneuvers the City has avoid are deficit borrowing options such as pension obligation bonds and restructuring its debt; extending the maturities of debt to provide a near-term cash flow fix while increasing the total debt service costs over the life of the issue. The City of Stockton serves as an example of the pitfalls deficit borrowing can cause. In 2007 the City of Stockton issued $125 million in pension obligation bonds. The market crash of 2008 resulted in the loss of one-third of the borrowed funds. Nonetheless, the Stockton remained liable for the full repayment of the bonds which amounted to 75 percent of their deficit in 2012.

AREAS OF CONCERN

As demonstrated, the City has made substantial progress on it path towards fiscal sustainability. Not only has the City achieved significant results, it has laid the foundation for much needed reforms within three of its key cost drivers: employee compensation, pensions, and healthcare. With improving revenue trends in the housing market and tourism, further progress in address the structural deficit is within reach. However, several areas of concern exist that require the City to proceed with caution. A few of these areas are as follows:

FEDERAL SEQUESTRATION IMPACT

While the American Taxpayer Relief Act of 2012 (ACT) permanently extended several Bush-era tax breaks, adjusted the Alternative Minimum Tax (AMT), and temporarily extended other benefits and breaks for individuals, it only delayed the start automatic across-the-board cuts known as "sequestration" until March 1, 2013. Unless exempted, various Federal grants received by the City will likely see an eight to nine percent decrease, representing a cut as high as $115 million in 2012-13: $23 million from community development and public safety related programs and $92 million from public housing and other housing assistance programs.

Additionally, while the ACT relieved pressure by resolving the tax portion of the fiscal cliff, it did not address the proposal to repeal or limit the tax-exempt status on municipal bonds. Should this issue not be address, the City and all other state and local governments would pay more for their infrastructure needs, resulting in higher taxes and fees.

FRAGILE NATURE OF ECONOMIC RECOVERY

Aside from direct impact of sequestration to the City's budget, the severity of across-the-board cuts and uncertainty about the Federal budget are likely to adversely impact the economy and hinder recovery. Highlighting the fragile nature of the economic recovery, the United States' Gross Domestic Product (GDP) retracted unexpectedly in the final quarter of 2012 and that the national unemployment rate increased in January 2013 to 7.9 percent. The City's unemployment rate, which has historically been higher than the national average, is 10.2 percent.

While revenue indicates that the housing market and tourism have been improving, other economy sensitive revenues are at or below plan such as the gas users and telephone users' taxes. This and the high unemployment rate indicate that growth has been moderate at best and the City should be cautious going into 2013-14.

GROSS RECEIPTS TAX PHASE OUT

The City's Business Tax represents about 10 percent of the City's General Fund revenue. Any plan to phase out the tax must include immediate reductions or alternative revenue sources to offset the loss of revenue. Independent economic analysis has determined that new property and sales tax revenue resulting from the phase out will not fully offset a reduction of the business tax. While changes to the Business Tax structure to increase competitiveness may be warranted, these changes should be developed and implemented through responsible strategies.

POLICE DEPARTMENT BANKED OVERTIME

In 2008-09, police officers worked 1.8 million hours of overtime and were compensated in cash for 1.6 million hours at a cost of $103 million. The balance of the overtime hours worked was "banked" for payment or use at a later date. In late 2009, as the City struggled to maintain a positive cash flow, the maximum allowance of overtime hours that police officers could bank was raised from 96 to 400 hours. This change allowed the Police Department to compensate officers for overtime hours worked in the form of time-off rather than cash. At that time, police officers had approximately 930,000 hours of accrued overtime banked at a value of approximately $43 million.

With the change in the overtime compensation policy, the department implemented overtime control measures to reduce the number of overtime hours worked and ensure that the accrued overtime was compensated with time-off rather than cash. Between 2008-09 and 2011-12, the total number of overtime hours worked by police officers declined by 34 percent while total cash expenditures declined by 83 percent.

The accrued overtime bank for police officers is now approximately 2.3 million hours, with a cash value of $85 million. While the increase in the accrued overtime bank was expected, it is prudent for the department to conduct a review of its current control measures and take additional steps to reduce this liability.

LITIGATION

As a self-insured entity, the City annually budgets funds to provide for claims and other liabilities based both on the City's historical record of payments and evaluation of known or anticipated claims. However, there some potential liabilities tied to litigation could result in the depletion of these funds in any given year. High exposure cases include the following:

- *Ardon v. City of Los Angeles:* The Ardon lawsuit challenges the validity of the City's telephone users' tax that was previously based on a federal government interpretation of the federal excise tax. The Supreme Court concluded that class claims for tax refunds against a local governmental entity are permissible, and remanded the matter back to the trial court for consideration on the merits. If the plaintiffs prevail, based on the current timing of the litigation, the City's liability could potentially be several hundred millions dollars, payable in 2013-14 or thereafter.

- *Americans with Disabilities Act Cases:* The City of Los Angeles is a defendant in several cases where plaintiffs allege that the City is in violation of state and federal disability access laws due to the condition of the City's sidewalks. Additionally, the Civil Fraud Section of the U.S. Department of Justice is currently investigating whether the City violated the False Claims Act in connection with certifications to the U.S. Department of Housing and Urban Development regarding compliance with federal accessibility laws and regulations protecting individuals with handicaps. The City's participation in the investigation is in the preliminary stage. The possible financial exposure of these cases is currently unknown but the outcomes could materially affect the City's General Fund financial position.

In light of the looming threat of sequestration, and tepid economic growth, and potential liabilities, it is critical that the City seize all opportunities to address the structural deficit, including the preparation of the 2013-14 budget, negotiating new labor agreements, and the proposed sales tax measure on the March 5, 2013 ballot. Furthermore, while borrowing to pay on any liabilities that could arise from lawsuits or other unforeseen events may be a necessity, due to the City's debt limit, the City's capacity to take on additional debt may be insufficient. A more practical approach to dealing with uncertain liabilities is to set aside reserves within the City's Budget Stabilization Fund.

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A LOOK AHEAD AT FIVE PRIORITIES

It is clear that much work remains to bring services and the quality of life to a level Angelenos expect and that are reflective of a world class city. Thus, regardless of the outcome of the sales tax initiative, it is recommended city policy makers review the progress made so far and identify opportunities for continued improvements and reforms. Should the increase in the sales tax be supported by the majority of the voters, the city's finances will be stabilized and the City's policy makers will have the breathing room to make strategic decisions on where and how to reinvest. Without a new increase in revenues, the options will be different and the decisions more difficult. The path the City embarks on the next few years is as important as the work that has already been done over the last four. The following pages highlight five priorities and each section contains a brief overview of options for next steps.

1. Ensuring public safety
2. Supporting the basic City infrastructure
3. Maintaining a good quality of life
4. Investing in the economy and job growth
5. Stabilizing the City’s workforce

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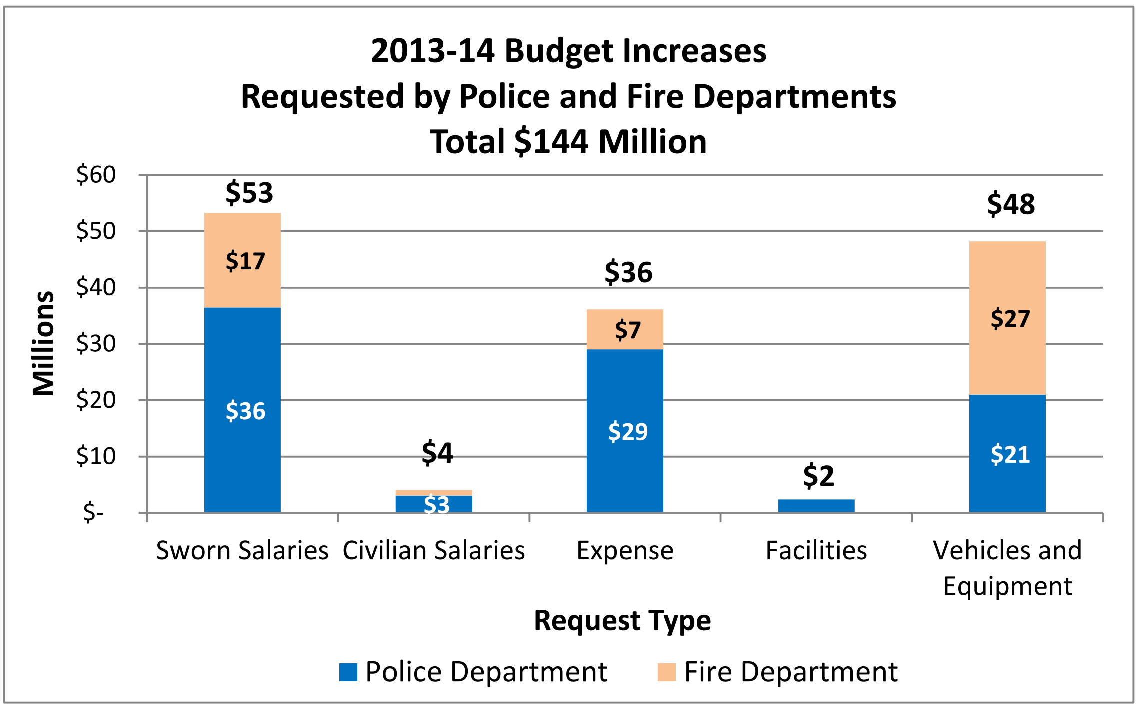
ENSURING PUBLIC SAFETY

The largest spending area of the City's budget is public safety. The dedication of significant levels of funding for the Fire and Police Departments reflect the Mayor and Council's prioritization of public safety above all other services. About 70 percent of the City's unrestricted revenues are dedicated to maintaining the services provided by these two departments. This percent may go up in 2013-14 given the additional $144 million in budget requests both departments have made just to maintain existing levels of service.

Chart 17



<u>Recommendations Regardless of Sales Tax Measure Outcome</u>

Conduct a third-party analysis of the constant staffing deployment model currently utilized by the Los Angeles Fire Department to determine the most efficient and effective deployment of fire department resources citywide.

<u>Options with Sales Tax Measure</u>

Additional sales tax revenue will allow the City to replace police and fire equipment that has already exceeded its useful life. Also, these departments will have sufficient funding for hiring and training of new personnel including civilians for the dispatch operations. Moreover, the available of new revenues will allow the City to at a minimum maintain services in departments that would have otherwise been reduced to fund police and fire.

Purchase of black and whites on a cash basis. Over the long-term, develop ability to purchase vehicles for both Police and Fire balanced between cash and debt.

Implement upgrades to Fire Dispatch/CAD system and Fire Alerting Systems. Long-term evaluate feasibility of combined Dispatch for Police and Fire.

Implement FireStat data analysis unit.

Implement new schedule for Fire Dispatch and evaluate civilianization of dispatch services.

Finalize updated emergency plans for disabled community per settlement agreement.

Provide additional funding for increased Outside Counsel expenditures for City Attorney.

Hire additional Detention Officers.

Open Fire Drill Tower and initiate firefighter hiring.

Develop a balanced approach to police overtime, including the reduction of the deferred overtime liability, over three to five years.

Complete the expansion of the Digital In-Car Video system for Central, West & Valley Bureaus.

Fund additional specialized equipment for Police Air Support; facilities upgrades (Ahmanson Recruit Training Center).

Provide increased funding for Fire fleet vehicle repair parts.

Options without Sales Tax Measure

Absent the new revenue from the sales tax measure, cuts to the Police and Fire Departments are unavoidable. Should the City move to maintain public safety services at the current levels, this will come at the expense of all other services including other areas of public safety such as City Attorney, Emergency Preparedness, and youth development programs.

Stop hiring new Police Officers, which would reduce the workforce by 300 in the first year, and potentially layoff an additional 200 Police Officers – for a total of 500 Officers.

Reduce resources in the Fire Department such as elimination of 10th member, Emergency Incident Technicians (Staff Assistants).

Consider a plan to turn over prosecution of misdemeanors to the District Attorney and reduce City Attorney accordingly.

Reduce or eliminate Gang Reduction and Youth Development funding.

Reduce or eliminate General Fund resources for graffiti abatement services.

Reduce funding for DNA analysis for criminal investigations.

Reduce civilian resources in both LAPD and LAFD.

Close area jails.

Close Animal Care Center(s).

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Supporting the Basic City Infrastructure

The worn-out roadways, sink-holes, and endless potholes are a constant reminder that the availability of funding to address physical plant infrastructure such as roadways, bridges, and alleys has been insufficient to meet the City’s needs.

To comply with the one percent funding level for capital projects in 2013-14, an additional $35 to $45 million from the General will need to be budgeted on an ongoing basis. However, due to continuing fiscal constraints, complying with the one percent Capital Improvement and Expenditure policy may not be feasible in 2013-14 or for years thereafter without a dedicated source of revenue. The deferral of capital projects and maintenance will certainly create liabilities for the City.

Furthermore, with the end of the Proposition 1 B program, the City must secure close to $30 million on an annual basis to keep its level of street repairs at the current number of miles. If appropriate funding cannot be secured, the number of miles preserved will decrease as will the condition of the City's streets.

Recommendations Regardless of Sales Tax Measure Outcome

Develop a revised Capital Improvement and Expenditure Program policy that is focused on the useful life of infrastructure, the appropriate replacement cycle, criteria for investments, and the best financing methods for making these investments.

Prioritize and fund deferred maintenance needs and critical capital improvements in the City in compliance with a redefined Capital Improvement and Expenditure Program policy that accounts for all investments in infrastructure including those funded from voter and non-voter approved debt.

Prioritize street preservation against other transportation projects to determine the level of funding from non-General Fund sources of funds including Measure R and Proposition C and to determine the number of miles that will be completed in 2013-14.

Options with Sales Tax Measure

Even with the additional revenue that is generated by the sales tax measures, given the many competing priorities, it is doubtful that $35 to $45 million can be earmarked for capital projects. However, a portion of these funds could be made available to increase the amount of funds being budgeted for critical repairs at facilities. Additionally, combined with other sources of funds such as Gas Tax, Proposition C, Proposition K, and debt financing tools, these available funds will allow the City to close the financing gap on long-delayed capital projects.

Options without Sales Tax Measure

Keeping projects on an indefinite hold will most likely be required without an additional source of revenue. An increase in the deferred maintenance list will also likely occur. Additionally the use of non-General Fund sources to cover the street services funding shortfall will need to required, further diminishing the capital fund available for other critical projects.

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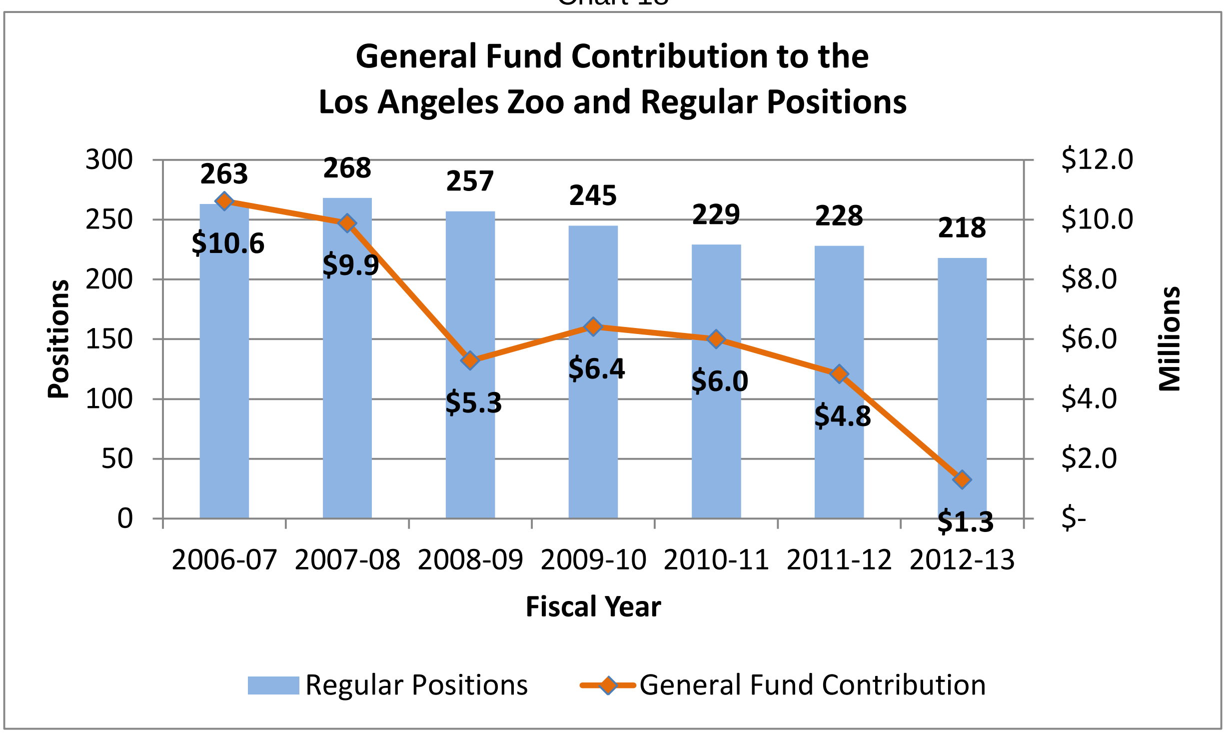
Maintaining a Good Quality of Life

The City's ability to provide services that improve the quality of life of city residents has diminished. This reality is in part due to the limited discretionary dollars available to the City. In fact four departments with missions focused on quality of life issues have been eliminated:

- Commission on Children Youth and Families
- Commission on the Status of Women
- Human Relations Commission
- Environmental Affairs Department

Other departments that enrich the quality of life through recreational and learning opportunities have also experienced reductions in funding from the General Fund. For example, cutbacks in funding for Los Angeles Zoo led to reductions in its workforce even as capital projects like the elephant habitat and reptile exhibit were completed and opened to the public.

Chart 18



The Recreation and Parks Department also experienced a loss of $43 million to spend on discretionary programs and enhanced maintenance of the park system as it had to focus more of its resources on rising operational costs. Consequently the department has reduced or eliminated recreational programs. The cleanliness of the park system has also been diminished.

Recommendations Regardless of Sales Tax Measure Outcome

Release a proposal to continue the City's collaboration with non-profit organizations at several cultural facilities and explore the feasibility of transferring the management of cultural facilities to organizations focused on the arts.

Partner with the Greater Los Angeles Zoo Association (GLAZA) and labor organizations on initiatives to make the Los Angeles Zoo a self-sufficient enterprise.

Options with Sales Tax Measure

The availability of additional revenues will allow the City to stabilize funding for the Department of Recreation and Parks, in particular at a time when 50 new park sites will be added in some of the City's most densely populated areas. Furthermore, additional funding will allow the City to continue providing enriching programs to youth and seniors.

Options without Sales Tax Measure

With limited discretionary dollars available citywide and a priority to fund public safety, non-mandated programs and in particular recreational services will continue to be reviewed for budget reductions. This may lead to actions such as:

- Reducing summer programs for youth
- Closing swimming pools or reducing service hours
- Reducing programs at community recreation centers and parks – creating "passive" parks without programs
- Eliminating the crossing guard program

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INVESTING IN THE ECONOMY AND JOB GROWTH

The focus of economic development activities in the City are to help create new jobs, attract new business and industries, maximize the City's assets, and increasing General Fund revenue. As a result of the elimination of the former CRA, the City also has a unique opportunity to establish a new model for organizing and delivering economic development services in the City. This Office anticipates that a new model would provide increased opportunities for long-term revenue growth and other citywide economic benefits.

Recommendations Regardless of Sales Tax Measure Outcome

Establish a new Economic Development Department and identify a nonprofit to provide development services on behalf of the City. This new dual structure would deliver a comprehensive suite of economic development functions that include strategic planning for growth, real estate-related services, and business and industry related services. It would also advance important projects and be provided with the resources and tools to implement a broad citywide economic development strategy.

Establish a new Tourism Authority and Convention Center operating model to help drive the continued attraction of higher spending and more frequent visitors, allowing for a growth in revenues, specifically Transient Occupancy Tax and Sales Tax revenue. Through this new authority, a strategic plan will be developed to attract citywide conventions, foreign tourist, and better coordinate the marketing of the City.

Develop a strategic focus on transit corridor investment to transit, community, economic and housing development investment opportunities and target key growth sector industries. As part of this focus, examine strategies that will help the City improve its project approval process including the updating of community plans and zone code reforms.

Options with Sales Tax Measure

The City may be in a position to review the City's business tax structure and adopt recommendations to increase competitiveness through a responsible approach. The City may also be able to fully invest in technology such as BuildLA and process improvements to streamline the City's approval procedures that currently hinder the start or completion of projects. These investments will help the City weather future economic downturns and better position the City for a speedier economic recovery.

Options without Sales Tax Measure

Absent the new revenue from the sales tax measure, the City will need to prioritize funding for a new Economic Development Department against all of its other prioritizes, including a growing list of deferred projects. However, insufficiently funding the new department may result in the loss of opportunities for revenue growth and citywide economic recovery. Also, continued cutbacks in services that make the City an attractive place to live, work, and invest in as well as reductions to services that support the private sector will harm the City's ability to attract and retain jobs and businesses.

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STABILIZING THE CITY'S WORKFORCE

The City of Los Angeles provides essential public services to the residents of Los Angeles by utilizing limited taxpayer and fee payer funds. Like all service organizations the overwhelming majority of the expenditures are related to labor costs associated with employees performing a defined set of services. Labor costs represent four of the five highest expenditure items in the City budget, specifically; salaries, pension, employee benefits and workers compensation representing 91 percent of the General Fund budget. Fundamental to the City's long term fiscal stability and ability to provide essential public services is the ability to control total employee compensation costs within projected revenue, while maintaining a highly qualified and productive workforce.

Recommendations Regardless of Sales Tax Measure Outcome

The Mayor and Council have moved the City toward a more sustainable path of providing quality government services at a level that Angelenos are willing to fund. Over the next 36 months, policy makers and labor leaders will renegotiate contracts with all city employees. This will provide opportunities and challenges for all involved to create more stability within city's workforce while maintaining a focus on cost-sharing and other reforms that promote long-term sustainability.

In addition, currently 70 percent of active City employees (sworn and civilian) pay nothing toward the cost of their healthcare premiums because the City subsidy fully covers the cost of the employee's selected plan. If each employee paid just 10 percent of the monthly premium - an average of less than $100 per month - the City would save approximately $40 to $50 million annually.

Similar to recent adjustments in starting salaries for sworn officers, starting salaries for all employees should be reduced by 20 percent.