Three-Year Plan Report

Presented by:
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City Administrative Officer

to the:
Budget and Finance Committee
April 13, 2015
WHERE HAVE WE BEEN?

April 7, 2010

MOODY'S DOWNGRADES CITY OF LOS ANGELES G.O. RATING

“Moody’s Investors Service has downgraded to Aa3, from Aa2, our rating of Los Angeles’ general obligation bonds....The downgrade primarily reflects the continued erosion of the city’s historically better-than-average willingness and ability to quickly rebalance its budget mid-year....The downgrade also partly reflects the likelihood that the city’s general reserves at the end of the current fiscal year could be materially weaker than we had previously expected....Los Angeles underestimated the full effect of the recession on its revenues and was slow in implementing planned cost savings for the current fiscal year.”
WHAT HAVE WE ACCOMPLISHED?
Fiscal Responsibility: Slow and Steady Growth

Seven General Fund Taxes

% Change from Year Ago

Fiscal Year Ending

$ Billions

-10% -5% 0% 5% 10% 15% 20%

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19

-3.7% -4.8%
WHAT HAVE WE ACCOMPLISHED?
Fiscal Responsibility: Ratings Improvements

TRAN Interest Rates

Interest Rate

Sale Date


0.44%  0.72%  0.26%  0.20%  0.17%  0.11%
WHAT HAVE WE ACCOMPLISHED?

Fiscal Responsibility: Structural Balance

Four Year Budget Outlook
2014-15 Adopted Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues (Proposed)</th>
<th>Expenditures (Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$4,800</td>
<td>$4,900</td>
</tr>
<tr>
<td>2015-16</td>
<td>$4,900</td>
<td>$5,000</td>
</tr>
<tr>
<td>2016-17</td>
<td>$5,000</td>
<td>$5,100</td>
</tr>
<tr>
<td>2017-18</td>
<td>$5,100</td>
<td>$5,200</td>
</tr>
<tr>
<td>2018-19</td>
<td>$5,200</td>
<td>$5,300</td>
</tr>
</tbody>
</table>

Millions


Revenues (Proposed) | Expenditures (Proposed)
WHAT HAVE WE ACCOMPLISHED?
Fiscal Responsibility: Healthy Reserves
WHAT HAVE WE ACCOMPLISHED?
Fiscal Responsibility: Compliance with City Financial Policies

Proposed Capital Expenditure as Compared to Capital Investment Policy

<table>
<thead>
<tr>
<th>Year</th>
<th>Proposed Amount (Millions)</th>
<th>Target Amount (1% of General Fund Rev.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>$31.5</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>$48.9</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>$11.6</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>$24.6</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>$9.1</td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>$6.4</td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>$6.5</td>
<td></td>
</tr>
<tr>
<td>2012-13</td>
<td>$6.8</td>
<td></td>
</tr>
<tr>
<td>2013-14</td>
<td>$51.7</td>
<td></td>
</tr>
<tr>
<td>2014-15</td>
<td>$54.8</td>
<td></td>
</tr>
</tbody>
</table>
WHAT HAVE WE ACCOMPLISHED?
Managing Legal Liabilities

Made strides in addressing our outstanding legal liabilities:

- *Willits v. City of Los Angeles:*
- *Ardon v. City of Los Angeles*
- *Romero v. City of Los Angeles*
- Employee-related litigation (e.g. City Attorneys)
WHAT HAVE WE ACHIEVED?

Staffing Levels

Authorized City Staffing
(Not Including Proprietary Departments)

<table>
<thead>
<tr>
<th>Year</th>
<th>Police (Sworn and Civilian)</th>
<th>All Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>13,799</td>
<td>22,080</td>
<td>35,879</td>
</tr>
<tr>
<td>2003-04</td>
<td>13,807</td>
<td>22,167</td>
<td>35,974</td>
</tr>
<tr>
<td>2004-05</td>
<td>13,805</td>
<td>21,610</td>
<td>35,415</td>
</tr>
<tr>
<td>2005-06</td>
<td>13,832</td>
<td>22,324</td>
<td>36,156</td>
</tr>
<tr>
<td>2006-07</td>
<td>13,944</td>
<td>22,723</td>
<td>36,667</td>
</tr>
<tr>
<td>2007-08</td>
<td>14,244</td>
<td>22,929</td>
<td>37,173</td>
</tr>
<tr>
<td>2008-09</td>
<td>14,253</td>
<td>22,718</td>
<td>36,971</td>
</tr>
<tr>
<td>2009-10</td>
<td>14,012</td>
<td>21,852</td>
<td>35,864</td>
</tr>
<tr>
<td>2010-11</td>
<td>13,740</td>
<td>19,225</td>
<td>32,965</td>
</tr>
<tr>
<td>2011-12</td>
<td>13,677</td>
<td>18,597</td>
<td>32,274</td>
</tr>
<tr>
<td>2012-13</td>
<td>13,647</td>
<td>18,170</td>
<td>31,817</td>
</tr>
<tr>
<td>2013-14</td>
<td>13,706</td>
<td>18,187</td>
<td>31,893</td>
</tr>
<tr>
<td>2014-15</td>
<td>13,707</td>
<td>18,168</td>
<td>31,875</td>
</tr>
</tbody>
</table>
WHAT HAVE WE ACCOMPLISHED?

Pension Contributions

Updated LAFPP/LACERS Contributions Projections
(Source: Illustrations of future City contributions prepared by Segal (actuary) as commissioned by the CAO.)

Cumulative Four-Year Savings: 6.9%
WHAT HAVE WE ACCOMPLISHED?

Funded Ratios in Retirement Systems

Projected Funded Ratio for LACERS and LAFPP (Pensions and Health)
(Source: Illustrations of future funded ratios prepared by Segal (actuary) as commissioned by the CAO.)
WHAT HAVE WE ACCOMPLISHED?
Labor Partnerships

- Pension reform for future hires
- Lower starting salary
- Employee contributions to health care premiums
- Retiree health care contributions
- Control compensation by limiting COLAs
December 11, 2014

MOODY'S UPGRADES CITY OF LOS ANGELES (CA) REAL PROPERTY AND EQUIPMENT LEASE-BACKED OBLIGATIONS

“[Los Angeles] is well positioned to strengthen its strong credit profile given a resilient and growing tax base, a highly diverse economy, and gradually growing reserves. The city’s strong financial management has curtailed expense growth, including significant pension cost in the wake of the Great Recession; prudently positioned the city to grow reserves with an expanding economy; and ultimately reversed the four-year budget outlook from growing deficits to a declining trend...”
WHERE ARE WE NOW?

• Employee costs continue to grow

• Pressure on restoring services increasing

• New litigation, including on power transfer
WHERE ARE WE NOW?
Employee Costs

Portion of General Fund Dedicated to Employee-Related Costs
(Adopted Budget)
WHERE ARE WE NOW?
Average Cost Per Employee

Cost Per Employee: 2005-2015
(Includes all sworn and civilian costs including salaries, overtime, pensions, benefits, and workers' compensation.)

- 2005-06: $96,384 with a 4.3% increase
- 2006-07: $104,703 with a 8.6% increase
- 2007-08: $108,257 with a 3.4% increase
- 2008-09: $108,786 with a 3.5% increase
- 2009-10: $113,139 with a 3.5% increase
- 2010-11: $118,900 with a 3.4% increase
- 2011-12: $124,724 with a 5.3% increase
- 2012-13: $131,288 with a 3.2% increase
- 2013-14: $135,477 with a 1.1% increase
- 2014-15: $144,452 with a 6.6% increase

Total Costs Per Employee:
- 2005-06: $96,384
- 2006-07: $104,703
- 2007-08: $108,257
- 2008-09: $108,786
- 2009-10: $113,139
- 2010-11: $118,900
- 2011-12: $124,724
- 2012-13: $131,288
- 2013-14: $135,477
- 2014-15: $144,452

CPI Change:
- 2005-06: -3.8%
- 2006-07: 4.3%
- 2007-08: 3.3%
- 2008-09: 3.5%
- 2009-10: 4.5%
- 2010-11: -0.8%
- 2011-12: 2.7%
- 2012-13: 2.0%
- 2013-14: 1.1%
- 2014-15: 1.3%

Percent Change:
- 2005-06: 8.6%
- 2006-07: 3.4%
- 2007-08: 4.5%
- 2008-09: 4.5%
- 2009-10: 9.3%
- 2010-11: 4.9%
- 2011-12: 2.0%
- 2012-13: 5.3%
- 2013-14: 3.2%
- 2014-15: 6.6%

Legend:
- Total Cost Per Employee
- Percent Change
- CPI Change
## WHERE ARE WE NOW?
Drivers of Employee Costs

Table 1: Salary and Pension Cost Increases, 2005-06 to 2014-15

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>2005-06 Cost per Employee</th>
<th>2014-15 Cost Per Employee</th>
<th>Total Increase</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sworn Salaries</td>
<td>$91,861</td>
<td>$110,302</td>
<td>$18,442</td>
<td>20%</td>
</tr>
<tr>
<td>Sworn Pensions</td>
<td>$12,226</td>
<td>$45,575</td>
<td>$33,348</td>
<td>273%</td>
</tr>
<tr>
<td>Civilian Salaries</td>
<td>$56,882</td>
<td>$75,869</td>
<td>$18,987</td>
<td>33%</td>
</tr>
<tr>
<td>Civilian Pensions</td>
<td>$10,843</td>
<td>$19,960</td>
<td>$9,117</td>
<td>84%</td>
</tr>
<tr>
<td>CPI</td>
<td></td>
<td></td>
<td></td>
<td>20%</td>
</tr>
</tbody>
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WHERE SHOULD WE GO?
Responsible Fiscal Management

• Maintain as a policy objective moving toward the elimination of the structural deficit.
WHERE SHOULD WE GO?
Responsible Fiscal Management

• Establish priorities for the use of debt vs. cash.

Funding Approved for MICLA Financing
Adopted Budgets 2005-2015
WHERE SHOULD WE GO?
Responsible Fiscal Management

- *Transition to pay-as-you-go for Police Department overtime.*
WHERE SHOULD WE GO?
Responsible Fiscal Management

• Grow reserves (Reserve Fund plus Budget Stabilization Fund) to 10 percent of General Fund revenue.

• Resolve major litigation.

• Limit the backfill of federal and other grant reductions.
WHERE SHOULD WE GO?
Focus on Core Services

• Revise the Capital Investment Policy to add a five-year investment plan and to focus on infrastructure quality goals rather than spending targets.

• Continue to implement the recommendations in the 2014 Fire Department deployment study by PA Consulting and move toward civilianization and the development of a new Standards of Cover study.

• Hire Detention Officers to staff jails so that Police Officers can return to the field; initiate a police workforce capacity study to expand these efforts throughout the Department’s operations.

• Building from the strategic advisor’s report on the City’s information technology (IT) system, develop a strategic plan to identify specific projects in priority order and with defined funding requirements.
WHERE SHOULD WE GO?
Sustainable Workforce

- **Instruct the Personnel Department and the CAO to develop a comprehensive approach to succession planning Citywide.**

- **Eliminate managed hiring.**

![City Employees by Generation](image1)

- Baby Boomers (Age 50-71), 49%
- Generation X (Age 35-49), 37%
- Millennials (Age 14-34), 13%
- The Greatest Generation (Age 72+), 1%

![City Employees by Years of Service](image2)

- Less than 10 Years of Service, 31%
- 10 to 19 Years of Service, 39%
- 20 to 24 Years of Service, 21%
- 25+ Years of Service, 8%
WHERE SHOULD WE GO?
Strengthen Revenues

- **Support the City’s diverse revenue system by maintaining the unrestricted nature of the General Fund.**

General Fund Revenues by Category:
2014-15 Adopted Budget

Tax Increment Impact on 1% Property Tax

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1% Property Tax</td>
<td>$995.0</td>
<td>$1,109.3</td>
<td>$1,127.7</td>
<td>$1,159.7</td>
</tr>
<tr>
<td>CRA Tax Increment</td>
<td>$1,017.7</td>
<td>$1,168.1</td>
<td>$1,197.9</td>
<td>$1,207.7</td>
</tr>
</tbody>
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