




ANTONIO R. VILLARAIGOSA
MAYOR

MEMORANDUM

TO: The Honorable Members of the Los Angeles City Council

CC: Miguel Santana, City Administrative Officer

FROM: Mayor Antonio R. Villaraigosa 

SUBJECT: Financial Status of the City

DATE: October 22, 2012

THE PATH TOWARDS FISCAL SUSTAINABILITY

The City Administrative Officer (CAO) will soon release the First Financial Status Report (FSR) of the year. The report will show that revenues are at or above expected levels, however the City faces a current year deficit due to overspending and unanticipated expenditures. Our Reserve Fund is at its highest level in 10 years, yet the City's structural deficit is projected to grow well into the future. The CAO will present you with a set of recommendations aimed at re-balancing this year's budget while addressing the structural deficit.

The CAO's recommendations are important first steps, but much more must be done. While the City continues to project deficits going forward, albeit significantly lower due to the numerous budget balancing actions we have implemented, more difficult decisions must be made. As you consider the difficult choices ahead, it is important to recognize the historic steps we have taken to weather the most serious economic crisis since the Great Depression.

Actions Implemented to Date

The large imbalance between the City's revenues and expenditures has been driven primarily by increases in our labor costs including healthcare, worker's compensation, employee compensation, and retirement benefits. As a first step to address this imbalance, we enforced a "hard hiring" freeze and eliminated more than 5,000 positions



from our General Fund civilian workforce through: layoffs, the Early Retirement Incentive Program (ERIP), and attrition.

We have worked with our labor partners to increase active civilian employee contributions from 6% to 11% of their salaries and from 9% to 11% for sworn employees to help secure their retirement benefits. This is one of the largest increases for active employee contributions toward retirement benefits in the country. We have also reduced cash overtime, reformed employee health benefits and reduced starting salaries for Police Officers by 20 percent.

In order to create efficiencies and reduce costs, we have: consolidated the Treasurer and Finance departments; absorbed the Environmental Affairs Department, Commission on Children Youth and Families, Human Relations Commission, and the Commission on the Status of Women into other departments; and centralized various personnel functions across the City. Opportunities for further consolidations are also being considered, in particular the potential consolidation of the Departments of Transportation and Street Services.

Additionally, over the past three years, we have aggressively pursued opportunities to improve the collection of revenues owed to the City. These actions include contracting out ambulance transport billings, improving the reporting of accounts receivable, launching a non-tax amnesty program that successfully promoted payment of severely aged debt, and creating a new Inspector General position to provide guidance and monitor progress of revenue and collections performance citywide.

These actions have not come easy and have required significant sacrifice by our employees and residents. As a result of our collective efforts we have been able to reduce a previously projected FY 2013-14 General Fund deficit of approximately \$1.1 billion to \$200-\$250 million, while simultaneously building a healthy Reserve Fund and protecting core public safety services. While this is an incredible achievement, more must be done to reduce costs and raise revenue.

The simple fact is that we are now left with fewer remaining options. Therefore, in order to eliminate our structural deficit I am now more than ever convinced that the City must strategically break free from our "traditional" approach to providing City services and move towards viable options based upon best practices from both the public and private sectors.

Pending Actions

The CAO will be reporting to the Council on some potential actions which can be taken to significantly increase revenues. While the specific types of actions and the size and scope of the revenue increases are yet to be determined, I want to make it clear that I will only support revenue increases to the extent we continue to make every effort to

reduce our overall cost structure. We must proceed on January 1, 2013 with the 209 position reductions that were approved as part of the FY2012-13 Adopted Budget. This is a difficult yet necessary decision.

You will soon have the opportunity to approve an ambitious civilian pension reform plan as proposed in my FY 2012-13 budget – one that ensures the continued provision of reliable retirement benefits for all employees (both current and future). The new LACERS tier, as currently proposed, is estimated to save more than \$3.9 billion over 30 years through a number of reforms, including raising the retirement age to 65, capping the maximum retirement allowance at 75% of final compensation, lowering the maximum retirement factor to 2%, eliminating pension spiking, and risk sharing with employees.

While the new LACERS tier will work to bend the long-term cost curve, more must be done to address our current expenditure growth. Given the legal limitations associated with changing active employee retirement benefits, we must engage in discussions with labor representatives in an effort to reduce, eliminate, and/or freeze salary increases in order to mitigate the number of required position and service reductions next fiscal year.

Finally, it remains critical that the City streamline the way we do business and deliver services. While complex and difficult, we cannot lose sight of moving towards public-private partnerships for the operation of the Los Angeles Zoo and the Convention Center. I applaud your continued and ongoing support for the establishment of a new economic development agency that will strategically stimulate economic growth, create jobs and grow the City's tax base.

The challenges ahead also require us to review all our programs and expenditures. Even the most "sacred" of cows must be evaluated and considered for reduction or elimination based upon a prioritization of service delivery needs.

To this end, by way of this communication I am instructing the CAO to begin work on the following (and/or expedite the work already begun through the FY 2012-13 Exhibit H budget instructions):

- 1) A comprehensive review of the attached list of potential actions which shall include its effect upon reducing our long term structural deficit;
- 2) Research on what other major cities have successfully accomplished in these areas; and
- 3) Viable action plans with timelines and recommendations in regards to how the City can expeditiously implement the initiatives listed on the attached.

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The fiscal reality calls for us to do business differently and move forward with initiatives we never would have considered under different circumstances. Make no mistake, this is not an attack on anyone or any group. Rather this is our chance to protect our employees and the services they provide for the long-term.

I look forward to continued collaboration with you in eliminating the City's structural deficit and thank you for your commitment to this great City.

POTENTIAL ACTIONS TO ELIMINATE STRUCTURAL DEFICIT

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| Cost of Living Adjustments | - Evaluate reductions in scheduled pay increases in FY 2012-13 and FY 2013-14 |
| Employee Health Care | - Consider requiring a minimum of a 10% contribution to health premiums from all civilian and sworn employees
- Increase co-pays and reduce costs of benefits for sworn health plans (similar to civilian plans)
- No longer tie the subsidy to the Kaiser Family rate |
| Compensation Reform | - Reduce Civilian starting base salaries
- Expand Incentive Based Pay to classification directly associated with sales
- Eliminate or modify automatic step increases
- Provide non-pensionable compensation
- Eliminate pay for non-federal City holiday |
| Workers' Comp | - Negotiate a reduction in civilian injury on duty pay full salary to state rate |
| Civil Service Reform | - Reform Civil Service System encompassing layoff procedures and hiring practices |
| Retiree Pensions | - Consider changes to automatic increases in post-employment benefits for existing retirees |
| DROP (Deferred Retirement Option Plan) | - Review and modify (see approach toward selective 120 day contracts for civilian retirees)
- Reduce 5% return |
| Part Time Employees | - Increase utilization (e.g. BSS inspectors, Crossing Guards) |
| Consolidations | - Street Services, DOT, and Street Lighting
- Planning and Building & Safety |
| Fire Department Deployment | - Expedite the third party review of Fire Department Deployment (e.g. constant staffing, civilianization) |
| Strategic Outsourcing | - Identify all legal and fiscally prudent contract opportunities including ambulance transport |
| City Attorney | - Develop a Charter amendment that would bifurcate the City Attorney's Civil and Criminal divisions to allow the City to appoint legal counsel on all civil matters |
| Public Private Partnerships | - Alternative management and/or securitizing of parking assets |