City of Los Angeles

CAO OVERVIEW OF THE FISCAL YEAR 2013-14 BUDGET
AS PRESENTED BY MAYOR ANTONIO R. VILLARAIGOSA

Miguel A. Santana
City Administrative Officer
April 30, 2013
Summary

• For the first time since 2008-09, the budget does not require the City to declare fiscal emergency.

• The proposed budget addresses the structural deficit by relying mostly on ongoing solutions (68%), significantly reducing the projected deficit for FY14-15 and ending with a surplus by FY 17-18.

• Should the labor-related savings in the proposed budget be achieved, this budget will restore service hours, avoid furloughs, and will not result in layoffs.

• The proposed budget restores priority services without relying on speculative revenue or deficit borrowing.

• The proposed budget achieves our CIEP policy threshold of investing 1% of General Fund dollars towards capital infrastructure.

• The proposed budget addresses all of the five guiding principle/pillars presented by the CAO as part of the Three-Year Plan to Fiscal Sustainability.
# Budget at a Glance

<table>
<thead>
<tr>
<th>TOTAL 2013-14 CITY GOVERNMENT</th>
<th>Appropriations ($ Millions)</th>
<th>Authorized Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Proprietary Departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airports</td>
<td>$4,373.9</td>
<td>3,566</td>
</tr>
<tr>
<td>Harbor</td>
<td>896.1</td>
<td>994</td>
</tr>
<tr>
<td>Water and Power</td>
<td>7,086.8</td>
<td>9,986</td>
</tr>
<tr>
<td>Total</td>
<td>$12,356.8</td>
<td>14,546</td>
</tr>
<tr>
<td>II. General City Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>$4,872.4</td>
<td>21,769*</td>
</tr>
<tr>
<td>Special Funds</td>
<td>2,816.1</td>
<td>10,111</td>
</tr>
<tr>
<td>Total</td>
<td>$7,688.5</td>
<td>31,880</td>
</tr>
<tr>
<td>III. Grants and Other Non-Budgeted Funds</td>
<td>$1,259.0</td>
<td>--</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$21,304.3</td>
<td>46,426</td>
</tr>
</tbody>
</table>

*Sworn Staff represent 61% of General Fund Positions
## Budget at a Glance

<table>
<thead>
<tr>
<th>BUDGET COMPONENT</th>
<th>Adopted FY 12-13 Budget ($ Millions)</th>
<th>Proposed FY 13-14 Budget ($ Millions)</th>
<th>Percent Change</th>
<th>Adopted FY 12-13 Authorized Positions</th>
<th>Proposed FY 13-14 Authorized Positions</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Budget</td>
<td>7,246.1</td>
<td>7,688.5</td>
<td>6.1%</td>
<td>31,817</td>
<td>31,880</td>
<td>0.2%</td>
</tr>
<tr>
<td>General Fund</td>
<td>4,550.5</td>
<td>4,872.4</td>
<td>7.1%</td>
<td>21,724</td>
<td>21,769</td>
<td>0.2%</td>
</tr>
<tr>
<td>Special Funds</td>
<td>2,695.6</td>
<td>2,816.1</td>
<td>4.5%</td>
<td>10,093</td>
<td>10,111</td>
<td>0.2%</td>
</tr>
</tbody>
</table>
Total General Fund receipts for 2013-14 are expected to grow 7.1% from the Adopted 2012-13 Budget

- 45% of this growth is from one-time sources.
  - Transportation Grants $42.6 million (for prior year reimbursements)
  - AB678 $23.6 million (prior year reimbursements)
  - Special Parking Revenue Fund (SPRF) $13.6 million (this is on-top of the ongoing transfer of $21.5 million)
  - Property tax administration fees $6m (from prior year overcharges by the County of Los Angeles)
  - Telecommunication Development Account transfer of $5.2 million (from a settlement with a cable provider)
  - Business Tax amnesty program $5.5 million
  - Police overtime reimbursement $1 million (due to realignment)
  - Parking Users Tax, improved discovery efforts $0.4 million
  - Budget Stabilization Fund transfer $53.5 million
Budget at a Glance

Seven General Fund Taxes

Property (includes VLF and ex-CRA receipts), Utility, Business, Sales, Hotel, Documentary and Parking

% change -- Left Scale
7 General Fund Taxes ($Billions) -- Right Scale
Pre-recession Level

Fiscal Year Ending

$ Billions

% Change from Year Ago

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

City of Los Angeles
Budget at a Glance

Documentary Transfer Tax
12-Month Moving Sum

Fiscal Year Ending

$ Millions*

City of Los Angeles
Addressing the Deficit

2013-14 Projected Deficit
From $1.07 Billion to $216 Million

- Remaining 2013-14 Deficit $216 Million
- Revenue Growth $177 Million
- Pension Savings $263 Million
- Salary Savings $83 Million
- HR Benefits and Worker’s Compensation Savings $61 Million
- Capital Improvement Cost Deferrals $48 Million
- Department Cuts $222 Million
## Addressing the Deficit

### 2013-14 Budget Deficit $216 million*

<table>
<thead>
<tr>
<th></th>
<th>Ongoing</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$111.31</td>
<td>$140.46</td>
<td>$251.77</td>
</tr>
<tr>
<td>Pension Savings</td>
<td>51.17</td>
<td>-</td>
<td>$51.17</td>
</tr>
<tr>
<td>Department Efficiencies and/or Reductions</td>
<td>14.99</td>
<td>2.54</td>
<td>$17.53</td>
</tr>
<tr>
<td>Funding Realignment and Adjustments</td>
<td>13.98</td>
<td></td>
<td>$13.98</td>
</tr>
<tr>
<td>Service Investments</td>
<td>(45.18)</td>
<td>(73.76)</td>
<td>($118.94)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$146.27</td>
<td>$69.24</td>
<td>$215.51</td>
</tr>
</tbody>
</table>

### Ongoing to One-time Solutions

- 68% Ongoing
- 32% One-time

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*Projected deficit was based on 2012 Budget Outlook.

** Revenue amounts represent variance from 2012 Budget Outlook to Proposed 2013-14 Budget and do not reflect the full change in revenue from the 2012-13 Adopted Budget to the 2013-14 Proposed Budget.
## Budget Outlook

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>ESTIMATED GENERAL FUND REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund Base</td>
<td>$4,550</td>
<td>$4,872</td>
<td>$4,860</td>
<td>$5,000</td>
<td>$5,144</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>$322</td>
<td>($12)</td>
<td>$140</td>
<td>$144</td>
<td>$137</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$4,872</td>
<td>$4,860</td>
<td>$5,000</td>
<td>$5,144</td>
<td>$5,281</td>
</tr>
<tr>
<td>General Fund Revenue Percent Increase</td>
<td>7.1%</td>
<td>-0.3%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

| **ESTIMATED GENERAL FUND EXPENDITURES** |                  |         |         |         |         |
| General Fund Base    | $4,550           | $4,872  | $5,019  | $5,114  | $5,239  |
| Incremental Changes to Base: | $322  | $147    | $95     | $125    | $27     |
| **Subtotal Expenditures** | $4,872 | $5,019  | $5,114  | $5,239  | $5,266  |
| Expenditure Growth Percent Increase | 7.1% | 3.0% | 1.9% | 2.5% | 0.5% |

| **TOTAL BUDGET (GAP)/SURPLUS** | - | ($159) | ($114) | ($95) | $15 |
Four Year Budget Outlook 2013-14 to 2017-18

- **2012-13**: $4,550
- **2013-14**: $4,872
- **2014-15**: $5,019
- **2015-16**: $5,114
- **2016-17**: $5,239
- **2017-18**: $5,282

**Revenue (Proposed)**: $5,267
**Expenditure (Proposed)**: $5,144

**Budget Outlook**

- **2013-14**: $114
- **2014-15**: ($95)
- **2015-16**: $15
- **2016-17**: $15
- **2017-18**: $15

City of Los Angeles
Four Year Budget Outlook 2013-14 to 2017-18:
Alternative without Labor Concessions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenues (Alternative)</th>
<th>Expenditures (Alternative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$4,550</td>
<td>$4,500</td>
</tr>
<tr>
<td>2013-14</td>
<td>$4,872</td>
<td>$4,600</td>
</tr>
<tr>
<td>2014-15</td>
<td>$5,127</td>
<td>($267)</td>
</tr>
<tr>
<td>2015-16</td>
<td>$5,223</td>
<td>($223)</td>
</tr>
<tr>
<td>2016-17</td>
<td>$5,348</td>
<td>($204)</td>
</tr>
<tr>
<td>2017-18</td>
<td>$5,375</td>
<td>$93)</td>
</tr>
</tbody>
</table>
## Five Guiding Principles

<table>
<thead>
<tr>
<th>I. Responsible Fiscal Management</th>
<th>II. Focus on Core Services</th>
<th>III. Alternative Service Delivery Models</th>
<th>IV. Sustainable Workforce</th>
<th>V. Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Maintain a Strong Reserve Fund</td>
<td>A. Prioritize services and fund accordingly including support costs</td>
<td>A. Implement alternative service delivery models</td>
<td>A. Reduce the ongoing cost of the City’s workforce with minimal service impact</td>
<td>A. Maximize the General Fund</td>
</tr>
<tr>
<td>B. Make Smart Investments</td>
<td>B. Reestablish a base service level for priorities consistent with available funding</td>
<td>B. Establish a managed competition process for select services</td>
<td>B. Reduce the ongoing cost of the City’s workforce through strategic size reductions</td>
<td>B. Enhance existing or establish new revenues sources</td>
</tr>
</tbody>
</table>
Responsible Fiscal Management

• Sets aside funds in the Reserve Fund at 5.24% of General Fund.

• After transfer of $53 million to budget, $16 million remains in Budget Stabilization Fund.

Smart Investments

• Provides $52 million from the General Fund for Capital Improvement Expenditures including Citywide elevator repair, roofing repair, contaminated soil removal, fire life safety systems, and other infrastructure improvements.

• Provides $15 million to partially address the increasing liability of accrued police overtime

• Provides funds for the implementation or improvement of the following:
  ✓ Finance—Treasury Management System
  ✓ ITA—Customer Relationship Management System and Disaster Recovery for Financial Systems
  ✓ GSD—Emergency Generator Equipment Support, FSM/SMS Interface Support, and Vehicle Management System
Police Department Overtime and Banked Overtime Comparison

Year

2007 2008 2009 2010 2011 2012 Current

Hours

$27.49 1,964,888 1,187,303 $15.71

$103.93 2,265,311 $109.82

$94.44

Millions

City of Los Angeles
II.

Focus on Core Services

A. Prioritize services and fund accordingly including support costs

B. Reestablish a base service level for priorities consistent with available funding

C. Realign services across departments based on core-competencies

Core Services

- Provides funding in Street Services and all support departments for 800 miles of Pavement Preservation and for pothole repairs ($17 million from General Fund).

- Provides increased funding for tree-trimming ($3.5 million) and graffiti removal ($1 million).

- Upgrades 25 Fire Companies from Basic Life Support to Advance Life Support ($1.5 million)

- Provides funding for the Police fleet replacement program ($15 million).

- Restores seven-day service at the Central Library and eight regional libraries ($1 million).

- Maintains funding for homeless services and meals for seniors ($11 million).

- Unifies planning and building safety functions in one department to improve customer focus and efficiency of development services.
Alternative Service Delivery Models

- Continues down the path of creating a new management model for the Convention Center.

- Begins implementation of the Economic Delivery Initiative (EDI) comprised of:
  - A new Economic Development Department that consolidates economic development-related functions.
  - An independent, transaction-oriented nonprofit entity that will convey the City’s economic development policies strategically and provide for policy and real estate development, promote business and industry growth, strategic asset management, and transaction financing.

- Implements a new marketing program with the Zoo.
Workforce Sustainability

- Limits staff growth to 0.2% from 2012-13 with 83% of this growth in:
  - Library (32 positions)
  - Fire (13 positions)
  - Animal Services (13 positions)

- Assumes implementation of Tier II for LACERS beginning on July 1, 2013.

- Minimizes service impacts and avoids furloughs or layoffs through the pursuit of labor concessions.
  - No 5.5% pay increase on January 1, 2014
  - 10% contribution to healthcare premiums

- Assumes no future salary increases through 2017
Salary Adjustments

CUMULATIVE BASE WAGE MOVEMENT

Fiscal Year

Coalition  EAA  Sworn  LA County

0%  5%  10%  15%  20%  25%  30%  35%  40%  45%

01/02 02/03 03/04 04/05 05/06 06/07 07/08 08/09 09/10 10/11 11/12 12/13 13/14

20%  32.25%  35.25%  43.75%
Healthcare Costs

HEALTH & WELFARE RATES PER EMPLOYEE
FY 2002/03 TO FY 2013/14

Civilian: 126% increase
$5,059 to $11,441 per employee annually

Fire: 102% increase
$6,938 to $14,035 per employee annually

Police: 104% increase
$6,474 to $13,180 per employee annually
Healthcare Costs

ANNUAL HEALTH & WELFARE EXPENDITURES

- **Civilian:** 83.75% increase ($120 million to $221 million)
- **Police:** 118.95% increase ($59 million to $129 million)
- **Fire:** 98.72% increase ($23 million to $46 million)
Revenue

V. Revenue

A. Maximize the General Fund

B. Enhance existing or establish new revenues sources

• Identifies $322 million of new General Fund revenues from the 2012-13 adopted budget.
  • $177 in ongoing revenue vs $145 in on-time revenue

• Utilizes one-time revenue for one-time investments in capital expenditures and City infrastructure.

• Challenges to strengthening recovery remain.
  • Unemployment still high at 9.9% for LA County as of March 2013 and personal income has remained flat since 2008
  • Real estate recovery growth fostered by low interest rates and low inventory. Growth could be impacted as conditions change.
  • Unknown impact from federal sequestration to economy (besides the direct City impacts to reduced federal grants and interest subsidy reimbursements).
  • Continuing international tensions and the European economic crisis
CAO Recommendations

• Keep the budget balanced through ongoing solutions that are at a minimum 68% of total solutions.

• Maintain a 5% Reserve Fund.

• Adopt the Budget Stabilization Fund Policy and direct any new revenues to the Budget Stabilization Fund.

• If additions are made, they should be accompanied by deletions of equal value or new sources of revenues.

• Do not include speculative revenue or engage in Deficit Borrowing.

• Services should only be restored or enhanced through ongoing sources of funds. Should services be restored or enhanced, support services must also be accounted.

• Immediately begin the efforts to achieve labor concessions.