

# CITY OF LOS ANGELES

CALIFORNIA



ANTONIO R. VILLARAIGOSA  
MAYOR

FRANK T. MARTINEZ  
City Clerk

KAREN E. KALFAYAN  
Executive Officer

When making inquiries  
relative to this matter  
refer to File No.

07-0600-S58

November 27, 2007

All City Departments  
All Councilmembers

RE: SECOND FINANCIAL STATUS REPORT FOR FISCAL YEAR 2007-08

At the meeting of the Council held November 9, 2007, the following action was taken:

Attached report adopted as amended .....	<u>X</u>
Attached motion (Parks - Smith) adopted as amended .....	<u>X</u>
Attached motion (Weiss - LaBonge) adopted as amended .....	<u>X</u>
Attached motion (Parks - Garcetti - Greuel) .....	<u>X</u>
Mayor concurred .....	<u>11-21-07</u>
To the Mayor FORTHWITH .....	<u>X</u>
Motion adopted to approve communication recommendation(s) .....	_____
Motion adopted to approve committee report recommendation(s) .....	_____
Ordinance adopted .....	_____
Ordinance number .....	_____
Publication date .....	_____
Effective date .....	_____
Mayor vetoed .....	_____
Mayor approved .....	_____
Mayor failed to act - deemed approved .....	_____
Findings adopted .....	_____
Negative Declaration adopted .....	_____
Categorically exempt .....	_____
Generally exempt .....	_____

City Clerk  
OS

Office of the  
**CITY CLERK**  
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Chief, Council and Public Services Division  
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28

TO THE COUNCIL OF THE  
CITY OF LOS ANGELES

Your **BUDGET AND FINANCE** Committee

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT relative to the Second Financial Status Report (FSR) for Fiscal Year 2007-08.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. APPROVE the City Administrative Officer's (CAO) Recommendations Nos. 1 through 43 contained in the Second FSR for Fiscal Year 2007-08, attached to the Committee report, and amended as follows:
  - a. Amend CAO Recommendation No. 6 to transfer \$45,702,146, as shown in Attachment 10, to the Reserve Fund for Economic Uncertainties.
  - b. Amend CAO Recommendation No. 10 to request the CAO to report back on the status of the Budget and Finance Committee request to the City Attorney's Office and the Personnel Department to evaluate the City's workers' compensation efforts and provide recommendations; and to provide a status report relative to employee cases that are still on an hourly rate; and request the City Attorney to provide a status report relative to the FLSA evaluation regarding continued funding of outside counsel versus providing positions within the City Attorney's Office.
  - c. Amend CAO Recommendation No. 37 to instruct the Chief Legislative Analyst (CLA) and the CAO to work with the Mayor's Office and department heads and report back in 30 days to the Budget and Finance Committee with a "Managed Hiring Plan", a list of departments meeting the criteria, and the likely cost savings to be realized in this exercise.
  - d. Delete CAO Recommendation No. 38 and hold the item in Budget & Finance Committee until a CLA/CAO report is completed on the Special Events Fee Waiver Policy.
  - e. Amend CAO Recommendation No. 39 to add the instruction for the CAO to provide complete and updated Unappropriated Balance (UB) lists as provided in Attachment 3b of this FSR whenever the CAO makes recommendations to affect any UB line items or the account as a whole. Continue, to freeze, as per instructions in the First FSR, all appropriations in the UB.
  - f. Amend CAO Recommendation No. 40 to add a recommendation to instruct the CLA to work with the CAO and define non-critical, discretionary contracts referred to in this recommendation and further instruct the CAO and the CLA to provide the Budget and Finance Committee a report listing the reviewed contracts and recommendations for approval/disapproval of all such contracts.

November 9, 2007 Stein  
\*Adopted as amended by Council action of

- g. Amend CAO Recommendation No. 41 to instruct the department heads to work with the CAO and CLA; further amend the instruction to require City Council approval on all departmental operational changes which identify reduction or efficiencies in management, administrative and support services.
  - h. Amend CAO Recommendation No. 42 to add a requirement that all actions relative to this recommendation must be done only after consultation with the CAO and CLA before the City Council approves the action.
  - i. Amend CAO Attachment No. 7 to correctly identify the funding source of the \$330,000 Transfer as PW/Bureau of Street Lighting, Fund 347/50, St. Lighting Maintenance Assessment.
2. TRANSFER \$50,000 from the Reserve Fund to the Unappropriated Balance and APPROPRIATE therefrom to Fund 100/56 (General City Purposes) to a new line item entitled "Sister Cities of Los Angeles, Inc."
3. INSTRUCT the CAO to report back relative to the status of prior year unspent encumbrances, loans and unfunded expenditures with specific information as to which encumbrances are funded by Reserve Fund Loans per the recommendations in the Controller's Report.
4. INSTRUCT the CAO to provide updated General Fund Receipts chart (Attachment 1) to the Budget and Finance Committee on a monthly basis.
5. INSTRUCT the CAO/CLA to provide a list in 30 days of all outstanding FY 2007-08 Budget Instructions and the First FSR FY 2007-08. The relevant instructions are those that have emphasis on cost savings and/or increased revenue generation.
6. INSTRUCT all departments that are projected to have deficits in the Second FSR (Attachment 4) to report their recommendations relative to the "managed hiring plan" to CAO/CLA in two weeks. The departments must state what steps they plan to take in order to address the projected deficits. Instruct the CAO/CLA to provide a report on the departments managed hiring plan.
7. INSTRUCT the Department of Animal Services to work with the CAO and the Personnel Department and to report back to Budget and Finance Committee with a comparative cost analysis between hiring veterinary doctors versus contracting the services of Vet Care Services.
8. INSTRUCT the CLA and CAO to work together and evaluate the City's current policy on Reserve Fund Loans to City departments; report back with recommended lending terms having special emphasis to departments' ability to use their current year funding as opposed to loans and; a requirement that departments reimburse the Reserve Fund in the same fiscal year in which the loan is provided.
9. INSTRUCT the CAO to differentiate net deficits caused by COLA versus the ones caused by other costs when reporting on future FSRs.

10. INSTRUCT all City Departments to take the necessary measures and absorb all costs associated with the EAA COLA.
11. ~~\*INSTRUCT the CAO and CLA to work together with the Police Department and report back with a hiring plan to ensure that the hiring does not exceed a net increase of 226 officers as adopted in the FY 2007-08 Budget. \*(Weiss - Garcetti)~~
12. DEPOSIT \$9.5 million in revenue from the Figueroa Plaza operations proceeds (Council file no. 07-1009) into the City's General Fund, Reserve Fund, Contingency Reserve Account and AUTHORIZE the CAO to provide the necessary Controller instructions to effectuate the intent of this recommendation.
13. REQUEST the CAO and CLA to work with the Mayor and provide an overtime spending plan, **\*Los Angeles Police Department and Los Angeles Fire Department excluded**, that eliminates the current projected deficits (Attachment 14) and report recommendations to City Council. **\*(Weiss - Garcetti)**
14. INSTRUCT the CAO and CLA to evaluate the remaining allocations in the UB (Attachment 3B) and make recommendations to the Budget and Finance Committee regarding those items that should be moved to the Reserve Fund versus retained within the UB.
15. INSTRUCT the CAO and CLA to report back on an evaluation to merge the Commission on Children, Youth and Their Families and the Commission on the Status of Women.
16. INSTRUCT the CAO and the CLA to complete a "Fee Parity" study to make a comparative analysis with surrounding jurisdictions and INSTRUCT department heads to prepare an annual "fee study" (Attachment 11A and 11B) which should be submitted to Budget and Finance Committee prior to the annual budget hearings and deliberations due the first quarter of each calendar year.

Fiscal Impact Statement: The CAO reports that transfers, appropriations and other adjustments totaling approximately \$69.5 million are recommended to meet current obligations. This includes the deposit of \$9.5 million in revenue from the Figueroa Plaza operations to the Reserve Fund, Contingency Reserve Account. Appropriations to fund approximately \$75 million in departmental expenditure deficits are deferred until the Mid-Year Financial Status Report pending receipt of more current cost data. The current Reserve Fund balance is estimated at \$139.3 million (consisting of \$122 million in the Emergency Reserve Account and \$17.3 million in the Contingency Reserve Account). With the deposit of the Figueroa Plaza revenue to the Contingency Reserve Account that will be received in increments, and a \$50,000 Reserve Fund appropriation for the Sister Cities program, the Contingency Reserve Account will be at \$26.8 million for a total Reserve Fund balance of about \$148.8 million.

#### SUMMARY

At its meeting of October 29, 2007, the Budget and Finance Committee considered the City Administrative Officer's (CAO) Second Financial Status Report (FSR) for Fiscal Year (FY) 2007-08. The Office of the CAO monitors the budget and transmits reports detailing the City's current financial condition to both the Mayor and Council. The Second Financial Status Report for FY 2007-08 summarizes the budget status through August.

The CAO reports that potential expenditure deficits of approximately \$75 million are identified, due to shortfalls in various accounts. About half of this deficit (\$37.68 million) is attributable to shortfalls within the Fire, General Services, and Police departments, however other non-departmental expenditures also make up a significant portion of the deficit (\$23.5 million). Attachment 4 of the CAO report provides a detailed breakdown of the projected expenditure deficits. The CAO states that although it is still too early in the fiscal year to determine whether all of these expenditure deficits will actually materialize, immediate steps should be taken to reduce current year expenditures. This is particularly important because Reserve Fund monies will not be available to offset any expenditure deficits in 2007-08.

The CAO also notes that the \$75 million estimate includes potential civilian cost of living adjustments in the current year. Although the Adopted Budget provides some funding in the Unappropriated Balance to offset future wage increases in 2007-08, it is unlikely that these funds will be available to departments due to the City's economic constraints. Departments are requested to make every effort to mitigate potential budgetary shortfalls due to the anticipated cost of living adjustments by managing hiring and identifying internal savings that can be used to offset these expenditures.

Actions totaling approximately \$53.4 million are recommended in the CAO report to partially offset the potential \$75 million in expenditure shortfalls. While some of these measures may be difficult to consider, the CAO nonetheless recommends it necessary for the City to meet the current year obligations and better position itself for 2008-09. The CAO report includes additional specifics and actions on the proposed budget balancing actions and to address a portion of the shortfalls in revenue.

The Fiscal Year 2007-08 budget is based on overall revenue growth of about five percent. Receipts through September are \$31 million above plan; but this includes a carryover of nearly \$19 million in property-related taxes which reflect activity in the prior fiscal year and a \$5 million carry-over of parking fines. Early results for the property tax and the documentary transfer tax are above expectation, but the local real estate market is showing stress and will dampen growth in property related revenue. The economy-sensitive sales tax is off to a slow start, showing only two-percent growth. Business tax receipts are above plan, but it is too early to draw any conclusion. Interest income at September is at the same level as last fiscal year, but the Treasurer is concerned that changing circumstances will result in lower receipts from that source this year. At this point, there is no basis to recommend a revision to the overall General Fund budget revenue estimate.

The current Reserve Fund balance is estimated at \$139.3 million (consisting of \$122 million in the Emergency Reserve Account and \$17.3 million in the Contingency Reserve Account). This is still approximately \$62.5 million below budget. The CAO is in the process of reviewing prior-year encumbrances and loans to identify General Funds for reversion to the Reserve Fund.

An updated five-year General Fund budget forecast with a projected deficit of nearly \$300 million in 2008-09 is provided in Attachment 12A. The Five Year forecast assumes 3 percent cost of living adjustments (COLAs) for civilians from 2008-09 through 2012-13 pending ratification of civilian MOU agreements, and from 2009-10 to 2012-13 for sworn upon expiration of current contracts. The employee compensation adjustments include the current year COLAs carried over to 2008-09 that were budgeted in the Unappropriated Balance.

Budgetary adjustments totaling approximately \$60,271,350 are recommended in this report. Recommended Reserve Fund reappropriations of \$537,516 are limited to those items that are

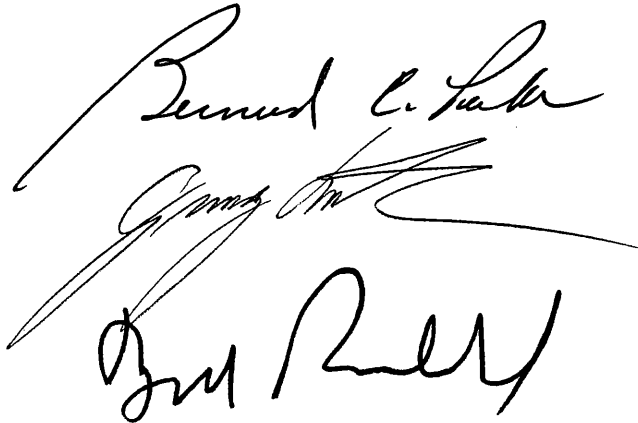
necessary to support City services. Other actions are described below:

- . \$132,170 for reappropriations from special funds;
- . \$1,937,250 for transfers between accounts within various departments and funds;
- . \$8,209,266 for transfers between various departments and funds;
- . \$816,559 for appropriations from special funds;
- . \$45,702,146 for transfers to the Reserve for Economic Uncertainties;
- . \$200,000 transfer to the Reserve Fund;
- . \$808,443 for increases in appropriations; and,
- . \$30,000 for other adjustments.

The CAO report also includes brief descriptions by department of potential surpluses and deficits at year-end, and recommended budgetary adjustments. During the Committee's discussion, the departments addressed many of their specific issues and responded to related questions by Committee members. The Committee recommended approval of the CAO recommendations as amended in Recommendations Nos. 1.a. through 1.i. described above. Additionally, the Committee added Recommendations Nos. 2 through 16 also described above. This matter is now forwarded to Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
GREUEL:	YES
SMITH:	YES
ROSENDAHL:	YES
HUIZAR:	ABSENT

ep  
ATTACHMENT  
#070600.58b.wpd  
10/31/07

*Report*  
**ADOPTED**

NOV 9 2007

*\* As Amended*  
**LOS ANGELES CITY COUNCIL**

*See attached Motions*

**TO THE MAYOR FORTHWITH**

**NOV 07 2007 - CONTINUED TO Nov. 9, 2007**

MOTION

I MOVE that the Budget & Finance Committee report relative to the Second Financial Status Report (FSR) for Fiscal Year (FY) 2007-08, Item #32 on today's Special Meeting Council Agenda (CF 07-0600-S58), be amended as follows:

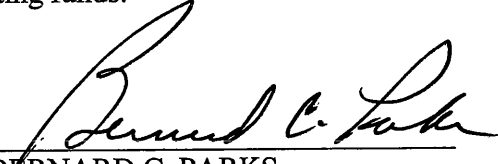
- 1. Substitute the following language for Recommendation 1(a) of the Budget & Finance Committee report:
  - a. Amend CAO Recommendation 6 to:
    - i. Transfer \$23,458,896 from the Unappropriated Balance line item entitled "EAA MOU Implementation Costs" to a new account in the Unappropriated Balance, Fund 100/58, entitled "Reserve for Economic Uncertainties."
    - ii. Transfer \$21,243,250 from the Unappropriated Balance line items entitled "Expense Account Contingencies" and "Public Safety Contingencies" to the General Fund, Reserve Fund - Contingency Reserve Account"
    - iii. Transfer \$1,000,000 from General City Purposes line item entitled "FMS Replacement" to the General Fund, Reserve Fund - Contingency Reserve Account"
    - \* iv. Reduce the Reserve Fund transfer to the Budget by \$22,243,250 \*(Parks-Garcelti)
- 2. Add the following to the Budget & Finance Committee report as Recommendation 1(j):  
Amend CAO Recommendation No. 2 to authorize the transfer of \$3,437,250 between various departments and funds, as specified in Attachment 6, and Amend Attachment 6 entitled "FY 2007-08 Budget Adjustments, Transfer Between Accounts Within Departments and Funds" to include the following intradepartmental transfer:

Transfer within Fund 100, Department 38, Fire Department:

	<u>Account</u>	<u>Account Name</u>	<u>Amount</u>
From:	1012	Sworn Salaries	\$1,500,000
To:	1092	Overtime Sworn Salaries	\$1,500,000

- 3. Amend Recommendation 3 of the Budget & Finance Committee report to clarify that the CAO should report back "per the recommendations in the Controller's Preliminary Financial Report Fiscal Year 2006-07" dated September 18, 2007 (CF 07-3003)."
- 4. Add Recommendation 17 to the Budget & Finance Committee report to authorize the City Attorney to execute a Supplemental Agreement to extend the term of Contract No. C-101880 to June 30, 2008 for the continuation of this personal services contract in the Office of the City Attorney for FY 2007-08 to be funded within existing funds.

Motion  
**ADOPTED** PRESENTED BY:

  
BERNARD C. PARKS  
Councilmember, 8<sup>th</sup> District

NOV -7 2007

NOV 9 2007  
\* As Amended  
LOS ANGELES CITY COUNCIL

TO THE MAYOR FORTHWITH SECONDED BY:



RM

**VERBAL MOTION**

I HEREBY MOVE that Council AMEND the Budget and Finance Committee report (Item No. 32, CF 07-0600-S58) relative to the Second Financial Status Report (FSR) for Fiscal Year 2007-08, as follows:

1. DELETE Recommendation No. 11.
2. DELETE the Los Angeles Police Department (LAPD) and the Los Angeles Fire Department from Recommendation No. 13.
3. ~~DELETE the LAPD from Recommendation No. 14.~~ \* (Weiss - Garcelli)

PRESENTED BY \_\_\_\_\_  
JACK WEISS  
Councilmember, 5th District

SECONDED BY \_\_\_\_\_  
TOM LABONGE  
Councilmember, 4th District

*Motion*  
**ADOPTED**

NOV 9 2007  
*\* As Amended*  
**LOS ANGELES CITY COUNCIL**

**FORTHWITH  
TO THE MAYOR**

November 7, 2007

CF07-0600-S58

NOV 07 2007 — CONTINUED TO NOV 9, 2007



NOV 09 2007

~~TO CITY CLERK FOR PLACEMENT ON NEXT  
REGULAR AGENDA MEETING TO BE POSTED~~ #78

~~BUDGET & FINANCE~~

~~Rule 16~~

**MOTION**

I MOVE that the CAO and CLA work with the Mayor to report on eliminating the current projected deficits as identified in Attachment 14 of the Second Financial Status Report for every department except for the Los Angeles Police Department and report recommendations to the Council.

PRESENTED BY:

*Bernard C. Parks*

BERNARD PARKS  
Councilmember, 8<sup>th</sup> District

SECONDED BY:

*EG*

*agreed*

November 9, 2007

*Motion*  
**ADOPTED**

NOV 9 2007

**LOS ANGELES CITY COUNCIL  
FORTHWITH  
TO THE MAYOR**

EG