



ANTONIO R. VILLARAIGOSA
MAYOR

MEMORANDUM

To: The Honorable Members of the City Council
The Honorable Laura N. Chick, Controller
The Honorable Rockard J. Delgadillo, City Attorney
All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)

From: Antonio R. Villaraigosa, Mayor *AV*

Subject: Belt Tightening Measures

Date: January 28, 2008

Cities across the country, along with the state and our federal government, are facing some of the most difficult financial times in recent memory. Based on the City Administrative Officer's (CAO) Mid-Year Financial Status Report (FSR) on the City's General Fund budget released today, it is evident that the City of Los Angeles' own financial condition has worsened significantly due to macroeconomic factors, including the national housing slowdown and credit crisis, as well as other factors unique to our state, region and local economies.

As a result of the economic slowdown, the City now faces a year-end budget shortfall of approximately \$156 million in the current fiscal year. As noted in the FSR, revenues are projected to fall below estimates for FY 2007-08 by almost \$70 million. Lagging economic growth is generating lower than anticipated receipts in both sales and documentary transfer taxes, which are clear economic barometers. Sales tax receipts are projected to fall below the adopted budget by \$15 million, and documentary transfer taxes are projected to be down by \$6 million. Additionally, other planned receipts from licenses, fees, and permits are not materializing as budgeted. The rapid deterioration in the City's revenue projections is also partly the result of the suspension of \$15 million in anticipated reimbursements from the State.

On the expenditure side, cost overruns are being driven by the increased cost of fuel, constant staffing requirements in the Fire Department, and overtime in the Police Department.

JAN 29 2008
BUDGET & FINANCE

200 NORTH SPRING STREET • LOS ANGELES, CALIFORNIA 90012

PHONE: (213) 978-0600 • FAX: (213) 978-0750

EMAIL: MAYOR@LACITY.ORG



Memo to The Honorable Members of the City Council, Controller L. Chick, City Attorney R. Delgadillo, All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)

January 28, 2008

Page 2

The CAO has noted that there is approximately \$45 million available in several contingency accounts to help offset the projected deficit. In addition, the CAO has gone to great pains to identify and propose \$72 million in cuts and revenue options. Even with these tough reductions, a projected deficit of \$39 million still remains to be closed.

It is imperative that we act now given the jeopardy looming in the coming fiscal year. Even if the Communication Users' Tax, which both reduces and modernizes this long-standing revenue source, is approved by voters on February 5th, we believe the City is facing at least a \$300 million shortfall for the upcoming fiscal year.

Simply put, it is up to City leaders to answer the challenge now to meet the deficit while protecting our core commitment to expanding public safety for Angelenos.

In the coming weeks, my office, along with the City Council, will consider the CAO's proposed budget balancing options and make tough decisions regarding budget reductions for this year.

There is no question that successfully addressing this financial challenge will require a renewed flexibility and fiscal discipline. We have already taken prudent actions, including aggressively managing hiring, cutting expenses, deferring capital projects, moving towards full cost recovery on fee-supported services, and scouring all accounts for unspent dollars.

We need to embrace this challenge with the idea that crisis brings opportunity. This is our chance to make broader and deeper structural changes in the way we do business as a City, to not only address the immediate challenge of this year's budget deficit but also to set the City on a long-term path.

Direction to Department Heads

In response to our current financial condition, and building upon actions we have already taken, I am directing that each department head immediately:

1. Suspend General Fund Equipment and Furniture Purchases for the remainder of the fiscal year, including IT equipment. Funds should be unencumbered and reported to the CAO and Controller in the next monthly financial status report.
2. Suspend all hiring and backfilling of positions for the remainder of the fiscal year except for the most critical positions, such as public safety and revenue-

Memo to The Honorable Members of the City Council, Controller L. Chick, City Attorney R. Delgadillo, All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)

January 28, 2008

Page 3

generating positions. Exceptions may be made on a case-by-case basis through the managed hiring policy in place.

3. Suspend all non-emergency overtime not directly related to public safety or critical support services for the remainder of the fiscal year.
4. Reprioritize the usage of all City vehicles to achieve an ongoing 10% reduction in fuel consumption. A 10% reduction will spare the air while resulting in \$2 million in savings for the remainder of the fiscal year.
5. Reduce electricity consumption by 10% providing a cost savings of \$1.25 million for this fiscal year. I am further instructing the General Services Department (GSD) to expedite completion of energy efficiency and retrofit projects to achieve energy savings of 53.8 million kilowatt-hours, saving as much as \$6 million per year, and reducing associated green house gas emissions as identified by the Department of Water and Power (DWP).
6. Work with the Information Technology Agency (ITA) to formulate a plan to reduce the number of City issued cell phones, pagers, and blackberrys. ITA is further instructed to provide a plan to consolidate telecommunications purchasing and implement appropriate technologies to reduce these costs.
7. Reevaluate all service contracts and work with each City vendor to reduce the contract cost and/or pricing. For example, by evaluating the pricing and terms and conditions of contracts for desktops and laptops, ITA has secured better volume pricing. With GSD's assistance, ITA not only took the best contract prices but also renegotiated existing desk top contracts for more favorable terms.
8. Terminate all non-essential contracts within the provisions of the contract and unencumber the remaining funds.
9. Refrain from executing any fee waiver requests without expressed authorization by the City Council and Mayor.
10. Unencumber all prior year General Funds, provide full cooperation to allow the Controller and CAO to sweep all uncommitted prior-year MICLA funds and to the extent possible unencumber any eligible MICLA funds.
11. Expedite the processing of grant and bond reimbursements to the relevant accounts, including Reserve Fund loan repayments.

The above cost cutting initiatives could save an estimated \$10 million.

Memo to The Honorable Members of the City Council, Controller L. Chick, City Attorney R. Delgadillo, All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)

January 28, 2008

Page 4

Furloughs

As a first step to reduce salary costs City-wide, I am instructing the CAO and the Personnel Department to immediately develop and implement a voluntary furlough program. City employees (excluding public safety field positions and other essential services positions) will be asked to take up to five (5) furlough days this fiscal year without impacting their benefit accruals or benefits. The full cooperation and assistance of each department head will be critical to this undertaking. Various voluntary furlough program models should be considered.

I am challenging my staff to take the lead in taking furlough days. I urge the City Council and other elected offices to follow.

Sale of Surplus Property

The CAO's Mid-Year FSR includes a proposal to sell three (3) vacant City animal shelters. My office has identified the following decommissioned and vacant fire stations that have the potential to be sold this fiscal year to assist in reducing the City's current budget shortfall:

- Westchester Fire Station 5
- Mar Vista Fire Station 62
- Watts Fire Station 65
- Sun Valley Fire Station 77

I am instructing GSD and the CAO to work with each respective Council Office with assistance from my staff to expedite the sale of the aforementioned surplus properties.

The sale of other City surplus property, such as vacant libraries, should also be pursued this fiscal year.

I further urge the City Council to adopt the recent proposal by Councilmember Greuel and Councilmember Smith amending the City's surplus property ordinance to require that 100% of proceeds are deposited in the General Fund.

Fleet Reduction

I am directing GSD to work with my office to implement a plan to reduce the City's fuel consumption to 1998 levels and reduce the motor fleet by at least 5% in this fiscal year, with a goal to achieve \$3.5 million in cost savings and one-time receipts.

Memo to The Honorable Members of the City Council, Controller L. Chick, City Attorney R. Delgadillo, All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)
January 28, 2008
Page 5

Furthermore, I am asking the City Council to drain the City Hall motor pool. I urge the City Council to adopt a policy eliminating home-garaged vehicles for the offices of the Mayor, City Council, City-wide elected officials, and commissioners for a combined savings and one-time revenue receipts in excess of \$1.4 million.

Expanding Revenues

Special Funds

I am instructing the CAO to review all special revenue funds for existing balances which can be swept into the General Fund for a certain period of time and recommend actions to implement such a change. To the greatest extent possible, the balances will be used to reduce budgetary deficits in the departments providing the funds.

Convention Center and Special Events Fee-Waivers

I urge the City Council to adopt a Convention Center fee-waiver policy that limits waivers to certified 501 (c)(3) non-profit organizations with annual operating budgets of less than \$5 million. Prompt implementation of this policy will save the City \$200,000 this year with annual savings of up to \$500,000 beginning next year.

I also urge the City Council to implement a moratorium on special events fee waivers, with the exception of neighborhood farmers' markets. I also ask that the City Council adopt a special events policy to recover full costs for City services for major special events and venues such as Dodgers Stadium and Staples Center. I am instructing the CAO and relevant departments to work with my office to develop a full cost recovery plan.

City Owned Parking Lots

I am instructing GSD to provide an expedited fee study on all City-owned parking lots and include recommendations to ensure that each parking lot is fully recovering the cost of its operation, including debt service.

My Finance and Performance Management Unit has convened a Revenue Task Force to explore revenue ideas and to facilitate implementation of new revenue initiatives. A few of these initiatives include:

- Advertising on City facilities, vehicles, and on the City's free-access public computers
- Increasing naming rights on City facilities

Memo to The Honorable Members of the City Council, Controller L. Chick, City Attorney R. Delgadillo, All City Department Heads (except Airports, Harbor, Water & Power, LACERS, and Fire & Police Pensions)

January 28, 2008

Page 6

- Negotiating exclusive concession agreements
- Re-examining current leasing agreements for City-owned property
- Licensing the City's intellectual property
- Selling uncollectible account receivables

These revenue initiatives will be pursued for implementation for FY 2008-09, having laid the groundwork now.

In addition, I am requesting that all department heads review all departmental proposed revenue submittals for potential implementation this year.

I am also calling upon all City employees to provide their best recommendations to reduce costs and increase revenues to the following email address:

LABudget@lacity.org.

Although the City faces even more severe budget and fiscal challenges ahead, as revenues continue to trend downward, I believe these are an unprecedented opportunity to develop and implement long-term structural changes to ensure the City and its residents and businesses continue to benefit from financial stability and reliable, quality public services.

To that end, I have instructed the CAO to develop a pilot zero-based budget beginning in FY 2008-09 to re-examine and prioritize all functions and programs and reduce costs.

My office will outline major changes in the FY 2008-09 Budget including the consolidation of City departments, centralization of common services and functions, elimination of redundant programs and development of service level benchmarks and performance measurements.

These actions will require the cooperation of the City Council, department heads, City commissions and City workers. Working together I know that we can all meet the current fiscal challenges and achieve long term structural change to prepare the City of Los Angeles to serve its people and to meet future financial challenges.

ARV:sc