


# CLA Memorandum

February 25, 2008

To: Honorable Members of the  
Los Angeles City Council

From: Gerry F. Miller   
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C.F. 07-0600-S77  
Assignment No. 08-02-2790

## Additional Information: Mid-Year Financial Status Report

As instructed by the Chair of the Budget and Finance Committee, this office is presenting supplemental information on the Mid-Year Adjustment and Financial Status Report and Belt Tightening Measures.

The office recommends adoption of the vast majority of actions recommended by the City Administrative Officer (CAO). However, several questions and requests for additional information arose during the Committee hearing. The CAO issued a response to many of those questions on February 20, 2008. This report provides additional information and some specific recommendations to address the Committee's concerns. This information is presented first to address the Committee's concerns with some of the proposed reductions in the CAO report, second with potential alternative reductions to address those concerns, third to address issues contained in the Mayor's correspondence, and finally to address some longer-term issues that impact the Council's decisions with their mid-year budget adjustment actions.

### 1. The committee requested alternatives to the following proposed reductions:

Graffiti removal and Community Beautification Grants	\$ 900,000
Library - reduce overall cut	500,000
Left turn signals	<u>600,000</u>
Sub-Total	\$ 2,000,000
Sales of surplus property	<u>10,800,000</u>
Total Requested Reductions	\$12,800,000

There are no additional revenues to be used to fund these items. In fact, as the CAO states, there remains a budget gap of \$37.6 million in the current year budget and continuing concerns that revenues will have to be adjusted downward again this fiscal year once December and January sales tax figures are in and the March business tax renewal occurs. Accordingly, adjustments to the above items will require alternative spending cuts.

### 2. Short-Term Alternative Spending Reductions:

The following spending reductions can be instituted immediately to partially address the Committee's concerns:

Reduction in Neighborhood Council funding	\$ 477,000
Transfer of current-year street furniture funding (\$40,000 per council office)	\$ 600,000
Reduction of the March Police Academy Class	<u>\$ 1,000,000</u>
Total	<u>\$ 2,077,000</u>

The basis for these proposed reductions is explained more fully below. It should be noted that the alternative spending reductions would ensure continued funding only for graffiti removal, community beautification grants and trash bags for community clean-ups, continued installation of left turn signals, and restoration of \$500,000 to ensure that libraries are not closed intermittently due to as-needed staffing shortages.

**A. Alternate Funding For Graffiti Removal, Community Beautification Grants, Community Clean-up Supplies, Left-turn Signals, and Decrease in Funding Reduction to the Library**

**i. Surplus Neighborhood Council Funding**

The Mid-Year Report included a recommendation to reduce funding for graffiti abatement by \$500,000. This will reduce graffiti removal from 30.5 million square feet to 28.4 million square feet - the equivalent of one month's funding.

The CAO advises, and the Department of Neighborhood Empowerment agrees, that there is \$477,000 available in the Neighborhood Council Funding Program, which was originally budgeted in anticipation of additional neighborhood councils becoming certified during 2007-08. The number of newly certified neighborhood councils is less than budgeted, therefore, the above specified amount is available for other purposes. We recommend that such funds be transferred to the Board of Public Works to fund the graffiti abatement program. This would have no impact on funding for existing Neighborhood Councils.

**ii. Street Furniture Revenue Fund Transfer**

Eligible expenditures from this source include expenditures to improve safety for pedestrians, including installation of traffic signals. We recommend the transfer of \$600,000 (\$40,000 per Council office ) at this time to cover the cost of maintaining the installation of left turn signals.

In January 2008, the City received its annual revenue payment from CBS Decaux, LLC for the Coordinated Street Furniture Program. Each Council Office received approximately \$100,000. If the City is able to issue the remaining permits owed in accordance with the contract for this program by April 30, 2008, the city will be paid an additional sum of approximately \$2.5 million, half of which would be divided equally among all council districts, about \$83,000 per district.

On January 15, 2008 (C.F. 07-0592) the Council approved a process that will require approval of outstanding street furniture siting requests, or negotiation of alternate sites with the contractor, by March 15, 2008. Any unapproved citing requests that remain outstanding after March 15<sup>th</sup> will be submitted for the Council to approve in order to enable the Department of Public Works to issue all permits by April 30, 2008.

**iii. Reduction of the March 2008 Police Academy Class Size**

The CAO's Mid-Year Report included potential reductions that were not recommended at this time, including reduction of the February Police Academy Class size to achieve savings of \$1.4 million in the current fiscal year. Due to the large structural budget deficit, projected shortfalls in the 2008-09 Budget and the heavy reliance on one-time budget balancing actions for the current year, as explained below in the Long Term Issues section of this report, we strongly recommend

that the March 2008 Academy class to be reduced by 45 recruits. The CAO is projecting that Police hiring will be 45 net new officers over the budgeted hiring plan. If the March class is reduced by this number approximately \$1 million in savings will be generated for the current fiscal year. More important, this reduction will generate more than \$5 million in savings in 2008-09. This action is critical to reducing, rather than increasing, the structural deficit which in 2008-09 is estimated to be between \$300 - 500 million.

We recommend that the \$1 million in savings from reducing the size of the March Academy class be used to fund the following: decrease the reduction to the Library Department (\$500,000); fully fund the balance of the Graffiti Program (\$23,000); Community Beautification grants (\$350,000); community clean-up supplies (\$50,000); and UB Reserve For Economic Uncertainties (\$77,000).

We recognize that investment in police hiring is the highest priority for both the Council and the Mayor and the recommended reduction in the March police hiring class is highly undesirable. However, as noted above, even after the approval of the mid-year budget adjustments, a sizeable budget gap remains for the current fiscal year and it appears likely that the gap will grow before June 30. Additionally, it appears that the 2008-09 budget gap will be at least \$300 million. The majority of the CAO's proposed budget balancing actions are one-time solutions, which will cause the 2008-09 budget gap to grow. Should additional spending cuts be required to keep the current year budget in balance, for the most part it should be expected that those cuts will be one-time in nature, since it is too late in the fiscal year to make ongoing spending reductions that will result in significant current year savings. As discussed more fully below, it appears that simply meeting the Police hiring plan for 2008-09 will require substantial and, perhaps, unacceptable service reductions across the board in virtually every non-public safety department. It appears unlikely that the City budget can remain in balance without impacting Police hiring. One way of minimizing future impacts on Police hiring is to ensure that current hiring does not exceed budgeted funds. It should be stressed that reducing the March Academy class would not soften the Council's commitment to public safety hiring. It would simply keep the established hiring plan in place and help keep current and future year budgets in balance to avoid more drastic budget balancing actions in the future.

## **B. Other Short-Term Actions**

- i. Alternatives to Selling Surplus Properties - Since the adoption of the budget balancing measure for the current year will still leave a projected deficit of \$37.6 million, we cannot recommend eliminating this recommendation. However, it must be noted that selling surplus property to balance ongoing expenditures is one of the most extreme one-time budget balancing options. The City would be using an asset that almost always appreciates in value to meet current expenditure problems, thereby compounding the City's structural imbalance. Selling surplus property should not occur simply to balance the budget, but to also meet public policy goals. Accordingly, given surplus property regulations and the requirement to first seek to use surplus property for affordable housing, it may not be desirable or feasible to simply sell some of the proposed properties to the highest bidder. While the process for the identified properties should continue, we recommend expanding the identification of properties to include alternative properties that could be sold that are infeasible for use for affordable housing, including vacant fire stations and libraries. For example, over the last several days this office has been exploring the sale of Fire Station No. 4. Move-in to the new station is planned for June of this year. There

is an expression of interest in purchasing the old station at its fair market value and, given its location, it is unlikely that the property could be used for housing purposes. Therefore, we recommend proceeding with the process of declaring this property surplus and proceeding with its sale as an alternative for at least one of the proposed properties on which affordable housing, permanent supportive housing and a SAFE (Solvents, Automotive, Flammable and Electronic) Center are planned.

Current ordinances require that proceeds from these sales of fire stations and libraries be placed in their respective facilities funds. However, we recommend that the Council revise the Los Angeles Administrative Code to provide that sale proceeds of fire stations be placed in the General Fund. We further recommend that the City Attorney be requested to draft the necessary resolutions and ordinances to amend the Charter to provide for library sale proceeds to be also deposited into the General Fund. The Recommendations to this report include instructions to prepare the necessary resolutions and ordinances, as well as for GSD to immediately initiate appraisals and the surplus property processes.

- ii. 22 LAPD Officers Deployed At LAX - LAWA has advised that it needs, and will reimburse the City, for 90 LAPD officers to work overtime to supplement the Airport Police. Councilmember Smith suggested that the 22 LAPD officers could be deployed to cover the fixed post positions on a regular time basis, with the balance of fixed post positions filled through overtime shifts among all officers. This deployment plan would be less expensive for LAWA and would reimburse the General Fund for much of the cost of the 22 officers assigned to LAX. We recommend that the Board of Police Commissioners be requested to direct the Chief of Police to redeploy the 22 officers in accordance with the above described plan. While current year savings from this action would be modest, if the redeployment occurs before the end of the fiscal year there is significant potential savings for 2008-09.

## **2. Mayor's "Belt-Tightening Measures" correspondence:**

The Mayor has raised a number of important issues that merit discussion. However, in most cases it is unlikely that these initiatives will result in savings for 2007-08, but we recommend focusing these efforts for the 2008-09 budget.

### **A. Fleet Reduction**

The Mayor proposed the elimination of 236 home-garaged executive fleet vehicles for a "combined savings and one-time revenue receipts in excess of \$1 million." We requested, but did not receive, information from the Mayor's Office on how these savings were determined. It would appear that the projected savings are comprised of \$1.2M in salvage receipts (\$5K/vehicle) plus \$.3M in commute savings. Based on our internal analysis, it is not feasible to achieve the projected savings this fiscal year or next fiscal year.

Because the majority of the executive fleet is encumbered with MICLA debt, the City could not simply sell the vehicles for \$1.2M in salvage receipts. The City could, however, replace older vehicles in the fleet that are unencumbered with debt. But this domino effect would significantly reduce the receipts anticipated by the Mayor since we would be selling much older vehicles in the fleet (~\$1K/vehicle). Also included on the list of 236 home-garaged executive fleet vehicles are ones that we cannot or would unlikely sell (e.g., vehicles on loan from the manufacturer, the 1952 Chrysler "parade car").

There are other logistical impediments to the Mayor's proposal. An insufficient number of parking spaces exist in City Hall and City Hall East to accommodate returned executive fleet vehicles (until they are sold) and 236 personal vehicles. There may also be meet and confer issues.

There are other impacts of the proposal which may not have been considered:

- A greater administrative burden on employees and central services staff in order to complete and process biweekly mileage reimbursement forms.
- A greater reliance on pool vehicles, which may not be available based on current usage, thereby impacting productivity.
- Almost all of the executive fleet is low or zero emission; personal vehicles are likely gasoline powered and therefore have higher emission levels.
- Personal vehicles may not be appropriate for City business (subject to stops at emergencies, transporting passengers to City meetings/events).

We do not disagree that some reduction in the executive fleet would be appropriate. In the short-term, the executive fleet could be reduced to calendar year 2001 levels. This would result in an overall reduction of 46 vehicles, including the 26 vehicles the Mayor has already asked his staff to return. This would allow GSD to gradually absorb the returned vehicles into the fleet in an orderly fashion and replace older, gasoline-powered fleet vehicles. In the long-term, a more thorough review of the executive fleet should target for reassignment of those vehicles that are being used primarily for commuting purposes. And, since the LAPD accounts for the vast majority of home-garaged vehicles in the City, the review must include all City departments in order to generate any real savings and/or efficiencies. Our office and the CAO have already been directed to and will report on the use of LAPD home-garaged vehicles.

- B. Reducing city's fuel consumption to 1998 levels - This goal, while worthy, may not be achievable because the City has made a conscious effort in recent years to interact with the public in locations convenient to residents throughout the City. The most notable of such efforts is the creation of our Neighborhood Council system and Area Planning Commissions. City staff attend many more meetings in the field now than in 1998.

It should be noted that GSD has already made exceptional strides in reducing the City's overall fuel consumption for the non-LAPD fleet, and lessening carbon-emissions, by replacing older vehicles in the City's fleet with hybrid vehicles. However, since 1998 the cost of fuel has risen dramatically and cannot be totally offset by the fuel-efficient hybrid technology.

The LAPD fleet and the cost of fuel has almost exclusively been the drivers behind the increase in fuel expenditures. The LAPD fleet has grown by 1098 vehicles since 1998, according to the LAPD. It is notable that while the number of black and white vehicles has grown by 139 vehicles during that time period, plain vehicles have grown by 666 (583 in 1998; 1249 in 2008).

GSD reports that the monthly average price of gasoline since 2003 has been a low of approximately \$1.65/gallon to a high of approximately \$2.30/gallon. Comparable costs for diesel are a low of about \$1.80/gallon to a high of approximately \$2.15/gallon. Reliable fuel usage and annual cost figures for all departments, including LAPD and LAFD are not available prior to 2006-07 when all fuel purchasing was consolidated under GSD. Data for 2006-07 show that consumption of fuel citywide, except for LAPD and LAFD, decreased by 4.4 percent from the previous year and fuel cost decreased by 1.94 percent. However, including LAPD and LAFD fuel consumption in the citywide analysis for that period results in fuel consumption increasing

by 31.8 percent, while expenditures for fuel increased by 67.86 percent. Nevertheless, City staff should be encouraged to use city vehicles efficiently and to carpool to meetings whenever possible.

C. Voluntary Furloughs - This initiative is too new to generate sufficient information to determine whether the projected \$20 million savings can be realized during the current fiscal year. To date, departments report that 131 employees have taken furlough days, totaling 133 days. However, in order of magnitude, if public safety and sanitation are excluded, in order to generate \$20 million in savings, at an average daily salary of \$290.00, all 7,000 employees remaining would have to take 10 furlough days between now and the end of the fiscal year to realize projected savings of that amount. As a voluntary program, it seems very unlikely that this will occur. Institution of a mandatory work furlough program would require management to meet and confer with employee unions which will require more time than is available to generate savings in the current fiscal year. It is essential, however, that discussions with the unions on furloughs for next fiscal year commence immediately. It appears unlikely that the City will be able to balance the 2008-09 budget without furloughs and/or layoffs. The Council previously instructed the Personnel Department to begin the preparation of layoff lists for all departments to enable such layoffs to be instituted quickly if they become necessary.

d. Suspend hiring and keep vacant positions open for the remainder of the year (except in public safety and revenue-generating positions) and suspend all non-emergency overtime - The Council approved a managed hiring freeze, in which the CAO and the Mayor review and authorize requests to fill vacancies, in conjunction with the 2<sup>nd</sup> Financial Status Report (FSR) for 2007-08. The CAO reports that thus far they believe this budgetary control has generated savings because the number of departments with projected deficits in the Mid-Year is less than the number of departments in the 2<sup>nd</sup> FSR. The Budget and Finance Committee has acted to include the CLA in the review and authorization to fill vacancies and to also consider: legal mandate; revenue generation; supervisory requirements; provision of essential public services; department size; and current and past history of department's ability to operate within its approved budget.

Suspending all non-emergency overtime is not meaningful unless it is applied to all Council-controlled departments, including LAPD. Non-emergency overtime is the practice of assigning officers on overtime to regularly scheduled work shifts, such as patrol. While LAPD has made recent efforts to curb overtime usage, it is still projected that this account will exceed the budget by \$9 million by June 30, according to the CAO. The CAO further advises that if LAPD is included in the ban on non-emergency overtime, then it is probable that \$2.5 million in savings can be achieved in the current fiscal year.]

e. Put on hold all equipment purchases coming out of the General Fund - GSD should be instructed to place on hold, all General Fund equipment purchase requests, subject to review by the CAO and CLA for the essential nature of the requested equipment. For example, a pool filter should be ordered if it is determined that a pool will be closed during the summer without the new equipment. The CAO has advised that the majority of funding for equipment purchases has already been encumbered or expended; therefore, it is unlikely that there will be \$1 million in savings resulting from this initiative in the current fiscal year.

f. Voluntary moratorium on fee waiver requests that have not had express authorization from the City Council and adopting a fee-waiver policy for the Convention Center that limits waivers to

certified non-profit groups with budgets of less than \$5 million - Several Council Committees have been developing these policies to balance the needs of communities and the financial needs of the City. Most recently the Budget and Finance Committee has considered several reports from the CAO and CLA, and a subsequent report is forthcoming in the next two weeks.

- g. Reduce electricity consumption citywide by 10% - While it is a good long range policy for city employees to strive to conserve electricity, it is unlikely that a 10 percent reduction can be achieved for the entire fiscal year from this point forward, as it is already the end of February. To achieve a 10 percent savings for the entire year in the remaining four months, electrical use would have to be reduced by 30 percent per month.
- h. Implement an energy efficiency program to cut energy use by 53.8 million kilowatt-hours - We cannot comment on this initiative as we do not have sufficient information at this time.
- i. Reduce the number of cell phones, pagers and blackberry devices used by City workers - The City enters into extended term contracts of two years or longer for cell phone, pager and blackberry communication services. If the City were to eliminate all such devices and terminate contracts at this time, there would be penalties owed by the City for terminating contracts before the expiration date, generally equal to the monthly basic service charge through the end of the agreement term. Therefore, there would be little savings realized in the current fiscal year. On a go-forward basis, departments should be instructed to examine the essential nature of such communication devices to the services provided by the department, and eliminate non-essential cell phones, pagers and blackberry devices as contracts expire.
- j. Renegotiate contracts and revenue collection - Most contracts do not have “re-opener” clauses; however, if such clauses exist, then it would be incumbent upon departments to try to negotiate more advantageous financial arrangements for the City.

Through the Office of Finance, the City has several revenue collection contracts. It is critical for department heads to ensure that bills for services provided are issued in a timely manner and that any necessary follow-up is conducted promptly, including referral to one of the City’s revenue collection contractors once it is determined that bills are uncollectible. We also recommend that the City move toward only accepting payment by cash, [cashier’s check, money order] or credit card. This will significantly reduce the number of bad checks and non-payment of bills that must be pursued by City staff or turned over to revenue collection contractors.

### 3. Long-Term Issues:

- a. Documentary Transfer Tax (DTT) - This issue is very complicated. Essentially, the City’s code provides that, for real property owned by a partnership, if there is a change in that partnerships that results in at least a 50% change in controlling interest, the property owned by the partnership is subject to the DTT. At the request of several Council offices, this office has been working on this issue for several months and has had an ongoing dialog with the Office of Finance and the County. It is clear that there is some revenue potential from this source, although the County CEO has indicated that he believes that those revenues will be relatively modest.

Due to State law provisions relative to confidentiality of corporate and partnership transactions, it is very difficult to obtain the information necessary to collect this portion of the tax. Currently,

property tax and DTT are collected through the County Recorder. The City has an agreement with the County Recorder to collect these taxes on our behalf. However, the partnership changes discussed above never go through the County Recorder. Those transactions are handled only by the County Assessor. City Attorney, CLA staff, Department of Finances staff and the County all agree that certain State laws prohibit the disclosure of much of that information, even internally to the County. Accordingly, although the County also is entitled to DTT from partnership changes, it also has been unable to collect the tax because the Assessor is barred from disclosing the pertinent information. This office and the County CEO are in discussions regarding developing sponsorship positions for State legislation to enable both the City and the County to access the necessary information to collect the tax. In the interim, staff continues to work on a short-term solution to attempt to collect some of the taxes from recent transactions. It is unlikely that this issue will be resolved in time to generate significant revenue during the current fiscal year, and the County CEO advises that the expected revenue from this source will be relatively modest. However, this issue will continue to be aggressively pursued so that revenue collection can begin as soon as possible.

- b. One-Time Budget Balancing Actions - A minimum of \$38 million, up to more than \$60 million, in budget adjustments currently under consideration are one-time budget balancing actions that will exacerbate the City's structural imbalance in future years. The one-time nature of the budget adjustments are dependent upon whether such reductions can be maintained in future years. Additionally, as mentioned above, following approval of the proposed actions and current year imbalance continues to exist and may increase before the end of the fiscal year. It is likely that actions over the next few months will largely be one-time balancing actions as well. Accordingly, the impact of the current actions on future years must be fully understood.

c. 2008-09 Budget Outlook

The CAO indicates that the projected deficit for 2008-09 is between \$300 an \$500 million and has indicated that there may be no or even negative growth in General Fund revenues for the 2008-09 fiscal year. As a rough order of magnitude, this office performed some calculations on what options are available to balance next year's budget. These calculations used the following assumptions:

- Police Hiring Plan for 2008-09 (284 net new officers) is funded;
- No reductions for Police, Fire and Sanitation;
- No growth in General Fund revenues;
- Other core service departments include: General Services, Transportation, Engineering, Street Services, Library and Recreation and Parks.

It must be stressed that the above listing of core departments in no way suggests that these are the most important departments or that this office is making any recommendations relative to departmental reductions or eliminations. This information is intended only to provide the Council with "order-of-magnitude" information on the challenges ahead for next years budget and to illustrate the need to make structural changes now to prevent the City's future financial situation from deteriorating. Substantial cuts in the above departments would materially impact the City's ability to deliver core services, so it is assumed that achievable levels of reductions in the above departments will drive funding availability for the remaining departments.



It is important to keep in mind that virtually all non-public safety/sanitation departments have already experienced current year reductions of between five and 10 percent, including absorbing the current year COLAs. Using the above assumptions, if the above core service departments were all to be cut by another five percent, all remaining departments would have to sustain cuts of approximately 11 percent to keep the 2008-09 budget in balance. Additional five percent cuts in the core departments would certainly result in direct service impacts, including reduction of library hours, reductions in miles of street and sidewalk repairs, significant reductions in graffiti abatement and community maintenance/beautification efforts, drastic reductions of transportation improvements and congestion relief efforts including elimination of left turn signals, and reduction or elimination of Recreation and Parks programs.

An additional 11 percent reduction in all other departments would clearly have significant impacts on service levels and may not be feasible, which may result in the elimination of some departments in their entirety. It should be noted that, using the above assumptions, the potential 2008-09 budget shortfall is more than the combined current year budgets of Aging, Commission on Children, Youth and Their Families, Commission on the Status of Women, Community Development, Cultural Affairs, Department on Disability, Environmental Affairs, the Human Relations Commission, Street Lighting and the Zoo.

It will clearly be a monumental challenge for the City to maintain a balanced budget and to fully fund the 2008-09 Police hiring plan. There is no money available either in the current year or in fiscal year 2008-09 for LAPD to exceed the hiring plan. Accordingly, if the City is to maintain police hiring while avoiding other unacceptable service level cuts, it is essential the LAPD stay within its budgeted funds.

d. Motion (Garcetti - Parks) C.F. 08-0201

This Motion calls for policy changes suggested by the Office of Finance to generate additional revenue by enforcing existing laws or recoup administrative costs. Three proposals will require adoption of ordinances, while one may be accomplished administratively, as discussed below. We recommend that the Council request the City Attorney to draft these ordinances for Council approval to enable additional revenue generation, possibly beginning later this fiscal year.

- i. Facilitate the application of a “look back period” for new business registrations, in order to collect back taxes owed to the City.

The Office of Finance proposed this change to apply a look back period for collecting back taxes owed to the City using criteria similar to that used by the Internal Revenue Service (IRS). The IRS looks back up to eight years, or the commencement of the business activity, whichever is greater.

The CAO correctly notes that the City Attorney has advised that this change is feasible. However, inasmuch as it will only require a minor change in the Los Angeles Municipal Code to distinguish between deficiency and delinquency, we recommend implementation of this change this fiscal year. Expedited drafting of the ordinance, and its enactment soon thereafter, will likely result in additional revenue this fiscal year if the Office of Finance is able to assign resources to focus on these collections in April or May 2008 following its completion of this year’s business tax renewal season. Based on the Office

of Finance's successful tax discovery efforts over the past eight years, Finance estimates that this minor change would generate approximately \$3.7 million per year of additional revenue, which generally equates to over \$300,000 per month. While revenue estimates from early implementation are unknown, there is no practical reason to delay implementation of this measure.

- ii. Amend the LAMC to require compliance with all of the City's business tax and Parking Occupancy Tax laws as a condition of granting a new permit, and authorize the suspension or revocation of a business's Police Permit for non-payment of business taxes or parking taxes.

As a policy matter, this proposal essentially recommends that parking lot operators be required to comply with all City tax laws as a condition of receipt of an operating permit. According to the Office of Finance, in FY 2007, the City received more than \$78 million in Parking Occupancy Tax payments, from an industry where collection and enforcement is "challenging" due to the cash nature of its transactions. Besides meeting with the Police Commission on several occasions to discuss this proposal, Finance has also met with an outside vendor to explore enforcement mechanisms implemented by other cities, including filing of a property lien for failure to pay a final tax assessment, or requiring repeat offenders to install parking revenue and control equipment. Given the policy and potential legal implications, the City Attorney should be requested to report to the Council with a methodology to enable the City to collect revenue legally owed, while minimizing legal challenges.

- iii. Online credit card payments to cover the full cost of processing those payments.

The CAO does not recommend implementation of a convenience fee at this time, until the department has completed a study to identify its actual costs for processing online credit card payments. We note, however, that the Office of Finance provided a full summary of cost data in to justify this recommendation as part of its "FY 2009 Revenue Opportunities" and it is our understanding that completion of a formal study can be expedited using that data. While we share the concerns that a full-cost-recovery fee of \$21.88 per online transaction would discourage online usage and increase over-the-counter payments, the Office of Finance has proposed a convenience fee of \$2-\$3 to recover a portion of the transaction costs. We recommend proceeding with implementation of a \$3 convenience fee to recover a portion of the cost of credit card processing and the cost to process the transaction.

- iv. Amend Ordinance No. 177469, and related provisions, to authorize the Office of Finance to collect a fee to cover all costs associated with the collection of delinquencies owed to the City, replacing the flat rate currently charged to some delinquent accounts.

We concur with the CAO recommendation to enact a modification, effective March 1, 2008, increasing the fee charged for collection of delinquencies from the current flat rate of \$131 to a percentage-based fee of eight percent.

- e. Motion (Greuel - Smith) C.F. 08-0167

This Motion directs the exploration of new efficiencies, and a revisit of past proposals to decrease expenditures, while still providing essential services. A majority of the issues in this Motion will require additional time to address. However, we wish to report on the following issues at this time:

- i. Require departments to provide bi-annual updates on fee reviews to the Mayor and Council in the Mid-Year and Year-End Financial Status Reports.

The City's budget development, approval, implementation and monitoring process requires all departments providing services to the public to review fees annually to assess whether fees charged by departments for specific services are reflective of the actual cost to provide such service, while not collecting more than the City's actual cost. If fees require adjustment, then it is generally approved in conjunction with approval of the annual budget deliberation process. The timing of approval of the budget in late May has been problematic for the City to enact required ordinances to update fees and to generate adjusted levels of revenue for the entire fiscal year. The Council addressed this issue, as recommended by the Budget and Finance Committee, by now requiring departments to submit fee studies and requests for adjustment during the first quarter of the calendar year. By changing the timing of the approval process for fee adjustments, ordinances can be enacted in sufficient time to enable adjusted billings to be timed to begin on July 1. We believe that adjusting fees annually is sufficient.

Instances do occur, however, when departments do not review fees annually to determine whether all city costs are being reimbursed. There have been cases in which certain fees have not been adjusted for many years and then when adjusted to reflect current costs, the adjustment is a very large percentage. It is critical that all departments be required to review fees annually to ensure that city costs to provide such services are being fully recouped to the extent legally permissible.

- ii. Create incentives for Council Districts to participate in the Street Furniture Advertising program by only allowing participating council districts to receive revenue from the program.

On December 14, 2001, the Council approved a contract for the Coordinated Street Furniture Program (C.F. 00-1073-S1), which included a process and schedule for Council Offices to act upon street furniture siting requests submitted by the contractor. The revenue generated from the contract is tied to siting permits issued for various types of street furniture, in accordance with the "Roll-out" schedule included in the contract. The basis for this program is that it required citywide participation to be successful, and program revenue would be divided between the General Fund and the Council. The Council's portion of the revenue is divided equally between all districts. It was anticipated in the contract that the majority of permits for siting program furniture would be issued within two years. However, due to an amended siting approval process which effectively created a situation whereby Council districts were not required to act within a set time frame, five years into the program many siting requests remained without action. Consequently, on January 15, 2008 (C.F. 07-0592) the Council approved changes to the furniture siting process, resulting in a schedule to

bring the city current with the permit issuance schedule included in the contract. As a result, the City will be able to earn the full amount of the annual payment in the contract. For 2008 this would result in an additional payment of \$2.5 million. In consideration of the January 15, 2008 Council action, there is no longer a need to create incentives for Council district participation in this program.

iii. Request city departments to report on potential opportunities to generate additional revenue through advertisements or sponsorships.

New revenue opportunities may exist through sponsorships such as naming rights of city-owned facilities (e.g. libraries, recreation centers, parks, skate parks, childcare centers, senior citizen centers, soccer fields, baseball fields and tennis courts). Sponsorship opportunities could include equipment used by city employees, services or programs provided through the city (e.g. flashlights; batons; bullet proof vests; senior lunch programs, employment program). Departments should be requested to report back to Council with sponsorship initiatives.

We must caution that any new initiatives to sell advertising space on City-owned buildings, facilities or the public right-of-way must not conflict with the terms and conditions of existing contracts, including the Coordinated Street Furniture Program, which provides for the exclusive right to advertise in certain formats within the public right-of-way. Although there may be revenue opportunities through advertising, we must further caution that if the number of ads proliferate, the value of advertising diminishes at a certain point resulting in a reduction in overall ad revenue. We recommend that the City Attorney and the Bureau of Street Services be consulted on all advertising initiatives.

f. Broadening the allowable expenditures from discretionary funds.

The Budget and Finance Committee requested language to broaden the allowable expenditures of Real Property Trust Funds, including pipeline franchise fees, and Street Furniture Revenue Trust Fund monies.

Currently, Real Property Trust Fund limits the expenditure of funds from the sale of real property to, "... acquisition of real property interests or the construction or maintenance of improvements upon real property owned by the City within the Council District for which the fund was created, or for the funding of human service programs or assisting City departments with operating program funds." Expenditure of Real Property Trust Fund revenue deposited from oil pipeline franchise fees "...shall be expended solely upon street and sidewalk infrastructure improvements within each respective Council District."

The Street Furniture Revenue Fund restricts expenditure of deposits to the following:

- i. Funding transit related services, including charter buses, dial-a-ride or other public transit service.
- ii. Purchase, lease or rental of transit related equipment (buses, trucks, transit shelters and street furniture)

- iii. Consultant studies, city staff costs, land acquisition, design or construction of sidewalks, curb improvements, beautification projects for the benefit of public transit patrons, public safety improvements in the public right-of-way (speed humps, street resurfacing, traffic lane or pedestrian marking and signage, and acquisition of property to widen the public right-of-way to create safer traffic flow or to create safer pedestrian routes and public amenities to improve the quality of life for public transit patrons, residents and businesses, including but not limited to, public safety, community and cultural awareness programs; and all expenses related or incidental to those uses; and repayment of any money borrowed or advanced from any other fund.

We recommend that the authorized expenditure of 100 percent of the funds deposited into the Real Property Trust Fund and Street Furniture Revenue Fund be broadened to allow expenditures for the following purposes from either Special Fund: Acquisition of real property; construction or maintenance of improvements on real property owned by the City; human service programs; community amenities, including but not limited to public safety, cultural and community awareness; improvements and purchase of equipment to be sited in the public right-of-way; city salary and operating costs; assistance to non-profit organizations with facilities in the City and providing services to residents of the City, including subsidy of fees; project design, consultant studies and city staff costs related to an allowable expenditure; advancement of funds to be reimbursed for an allowable expenditure.

## **RECOMMENDATIONS:**

That the Council, subject to the approval of the Mayor:

1. Approve the Budget and Finance Committee report relative to the 2007-08 Mid-Year Adjustment and Financial Status report and Belt Tightening Measures recommendations contained in the 2007-08 Mid-Year Adjustment and Financial Status Report, dated January 28, 2008, and the Addendum to the Mid-Year Adjustment and Financial Status Report, dated February 6, 2008, except for the following:
  - a. Eliminate the proposed reduction of \$900,000 from the Board of Public Works, Board Office for Graffiti Removal, Community Beautification grants and Community Clean-up supplies.
  - b. Decrease the proposed reduction to the General Fund appropriation to the Library Department from \$2 million to \$1.5 million.
  - c. Eliminate the proposed reduction of \$600,000 from the Transportation Department for 16 new left-turn arrow approaches and two new signal installation projects.
  - d. In conjunction with the surplus designation of the West Los Angeles animal shelter, Fire Station No. 5 and Fire Station No. 62, provide that the Housing Department will have control of these sites, and instruct the Housing Department to report to the Council within 30 days on the potential development of affordable housing and/or a permanent supportive housing programs on these sites.
  - e. In conjunction with the surplus designation of Fire Station 87 (Northridge), provide that the Bureau of Sanitation be given control of this facility, and instruct the Bureau of Sanitation to report back to the Council in 30 days on the use of this site for development of a Solvents,

Automotive, Flammable and Electronics (SAFE) Center.

- f. Add an instruction for GSD to immediately initiate appraisals and other actions on all surplus fire, library and any other properties to enable the sale of such properties on an expedited basis and instruct all other impacted departments to concurrently report back on the policy issues related to the sales of such properties.
2. Approve the following recommendations which contain technical corrections to the CAO's response to the Budget and Finance Committee issues, relative to the 2007-08 Mid-Year Adjustment and Financial Status Report, dated February 20, 2008:
    - a. Recommendations relative to State's deferral of payments of Gas Tax monies to local jurisdictions for the months of March through July 2008:
      - i. Delete recommendation No. 47 in the CAO 2007-08 Mid-Year Financial Status Report, dated January 28, 2008;
      - ii. Direct and authorize the Bureau of Street Services to be the lead department on Proposition 1B and to submit an application for \$15.5 million in project funding to the State for additional 2008-09 resurfacing projects;
      - iii. Request the City Attorney to prepare and present an ordinance within two weeks to create an interest bearing special fund to be known as the "Proposition 1B Infrastructure Bond Fund," for the receipt, retention and disbursement of funding from the State;
      - iv. Direct the Bureau of Street Services to temporarily deposit Proposition 1B funds in Fund 206/50 under a new Revenue Source Code entitled "Proposition 1B - Temporary Account," should the new special fund for Proposition 1B not be in effect when funds are received, and authorize the BSS to transfer the funds with accrued interest upon establishment of the Proposition 1B Trust Fund;
      - v. Authorize a loan from the Public Works Trust Fund (PWTF), Fund 834/50, in the amount of \$7 million and transfer the same amount to the Special Gas Tax Street Improvement Fund, Fund 206/50, to cash flow the Bureau of Street Services' 2007-08 projects funded by the Special Gas Tax Street Improvement Fund; and
      - vi. Instruct the BSS to repay the PWTF loan upon receipt of Proposition 1B funding, anticipated in May 2008, through the Special Gas Tax Street Improvement Fund.
    - b. Amend the 2007-08 Mid-Year Adjustment and Financial Status Report, dated January 28, 2008, and the Addendum to the Mid-Year Adjustment and Financial Status Report, dated February 6, 2008, to relative to the Library Department to substitute the following recommendation for Recommendation No. 8 to decrease the reduction to the Library Department budget from \$2 million to \$1.5 million to ensure sufficient funding for as-needed staffing to ensure that libraries are not closed intermittently due to as-needed staffing shortages:  
  
Reduce the General Fund appropriation to the Library Department by \$1.5 million; instruct the City Librarian to reduce the Library budget by \$1.5 million, as determined by the City

Librarian, ensuring that sufficient funding will be available to avoid intermittent closures of libraries.

- c. Note and file the balance of the CAO's response to the Budget and Finance Committee issues, relative to the 2007-08 Mid-Year Adjustment and Financial Status Report, dated February 20, 2008.
3. Adopt the following recommendations to address issues contained in the Mayor's "Belt-Tightening Measures" correspondence, dated January 28, 2008:
- a. Reduce the Executive Fleet by 26 vehicles to reduce the number of vehicles to the 2001 level, as follows: Mayor (-26); Council (-13); City Attorney (-2); and General Services Executive Pool (-5).
  - b. Instruct General Managers to encourage city staff to use city vehicles efficiently and to carpool whenever possible.
  - c. Instruct the CAO to immediately begin negotiating a mandatory work furlough program with all employee unions, except for public safety positions and to provide status reports to the Executive Employee Relations Committee.
  - d. Institute a city-wide ban on non-emergency overtime, including LAPD. Non-emergency overtime for LAPD shall include, but not be limited to, scheduled overtime shifts. LAFD shall be exempted for non-emergency overtime needed to maintain staffing of fixed-post positions.
  - e. Instruct all departments to submit General Fund equipment purchase requests for review by the CAO and CLA regarding the essential nature of the purchase. Equipment purchases vital to the provision of public safety services shall be exempt from this requirement.
  - f. Instruct General Managers to ensure that city employees and contractors are striving to conserve electricity whenever possible. Establish an electricity consumption reduction goal of 10 percent from the 2006-07 consumption level.
  - g. Instruct General Managers to review the essential need for cell phones, pagers and blackberry devices before renewing, extending, consolidating or entering into new contracts, and to reduce the number and cost of such communication devices to the extent possible without effecting employee productivity.
  - h. Instruct General Managers to re-examine and renegotiate existing contracts with re-opener clauses to reduce the cost of such contracts for goods and services.
4. Adopt the following recommendations to address additional issues raised by the Budget and Finance Committee and Council Motions:
- a. Transfer \$477,000 in savings from the Neighborhood Council Account, as specified below, in lieu of proposed reductions to the Board of Public Works for graffiti removal:

	<u>Fund</u>	<u>Account</u>	<u>Amount</u>
FROM:	Fund 448/47 (DONE)	Acct. C218 (Neighborhood	

		Council Funding Prog. 2007-08)	\$477,000
TO:	Fund 100/74 (Bd. PW)	Acct. 1010 (Salaries General)	\$238,000
	Fund 100/58 (UB)	Reserve For Economic Uncertainties	\$239,000
		Total	<u>\$477,000</u>

- b. Transfer \$1 million from the LAPD in anticipation of savings resulting from reducing the March Police Academy class by 45 recruits, to fully fund Graffiti Removal (\$23,000), and in lieu of proposed reductions to the Board of Public Works for Community Beautification grants (\$350,000), Community Clean-up supplies (\$50,000), and to partially offset the proposed reduction to the General Fund appropriation to the Library by (\$500,000), with the balance deposited into the UB Reserve For Economic Uncertainties (\$77,000), as follows:

	<u>Fund</u>	<u>Account</u>	<u>Amount</u>
FROM:	Fund 100/70 (Police)	Acct. 1012 (Sworn Salaries)	\$1,000,000
TO:	Fund 100/58 (UB)	Reserve For Economic Uncertainties	\$1,000,000

- c. Transfer a total of \$600,000, as follows, in-lieu of reductions to the Department of Transportation which would have resulted in the elimination of 16 new left-turn arrow approaches and two new signal installation projects:

FROM: Fund 43D/50 (Street Furniture Revenue)\* \$600,000

\* \$40,000 from the available portion of each Council District

TO: Fund 100/58 (UB) Reserve For Econ. Uncertainties \$600,000

- d. Instruct the Personnel Department and the LAPD to reduce the size of the March Police Academy class by 45 recruits, to bring projected police officer hiring to within the 2007-08 budget of 226 net new officers.
- e. Request the City Attorney to prepare and present an ordinance to revise LAAC, Section 5.134 (Vacated Fire Department Facilities Fund) to provide that proceeds from sales of vacated fire facilities will be placed in the General Fund.
- f. Request the City Attorney to submit for Council approval within 30 days, an ordinance to amend the LAAC Section 5.500 (Council District Real Property Trust Funds) as follows:
- i. Specify that 100 percent of the proceeds from the sale of surplus properties declared surplus will be deposited into the General Fund;
  - ii. Request the City Attorney to submit for Council approval within 30 days, an ordinance to amend the LAAC Section 5.500 (Council District Real Property Trust Funds) to broaden the authorized expenditure of 100 percent of the funds deposited into the Real Property Trust Fund to permit expenditures for the following purposes: Acquisition of real property; construction or maintenance of improvements on real property owned by



the City; human service programs; community amenities, including but not limited to public safety, cultural and community awareness; improvements and purchase of equipment to be sited in the public right-of-way; city salary and operating costs; assistance to non-profit organizations with facilities in the City and providing services to residents of the City, including subsidy of city fees; project design, consultant studies and city staff costs related to an allowable expenditure; advancement of funds to be reimbursed for an allowable expenditure.

- g. Request the City Attorney to submit for Council approval within 30 days, an ordinance to amend LAAC Section 5.121.7 (Street Furniture Revenue) to broaden the authorized expenditure of 100 percent of the funds deposited into the Street Furniture Revenue Fund to permit expenditures for the following additional purposes: Acquisition of real property; construction or maintenance of improvements on real property owned by the City; human service programs; assistance to non-profit organizations with facilities in the City and providing services to residents of the City, including subsidy of city fees; and project design, consultant studies and city staff costs related to an allowable expenditure.
- h. Request the City Attorney to prepare and submit to Council, necessary resolutions and documents to place a proposed Charter amendment on the next available city-wide election ballot which will amend Charter Section 534 (Library Property) to give control to the Council for the acquisition, usage and disposition of real property by the City for library sites and provide that sale proceeds of library real property shall be deposited into the General Fund.
- i. Request the Board of Police Commissioners to direct the Chief of Police to redeploy the 22 officers currently assigned to LAX, as follows: Deploy, on regular time, the 22 LAPD officers currently assigned to LAX to cover a portion of the 90 fixed post positions for which LAWA will reimburse the City; and assign the balance of fixed post assignments, on an overtime basis, to any officers willing to work overtime.
- j. Adopt the following recommendations to address issues contained in the Motion (Garcetti - Parks) C.F. 08-0201:
  - i. Request the City Attorney to prepare and submit an ordinance to the Council within 15 days to modify the LAMC to distinguish between “deficiency” and “delinquency” to facilitate the application of a “look back period” of up to eight years or commencement of the business, for new business registrations using criteria similar to that used by the Internal Revenue Service (IRS), in order to collect back taxes owed to the City.
  - ii. Instruct the Director, Office of Finance to make every effort to assign staff to begin implementation of the “look back period” for new business registrations as soon as the above specified ordinance becomes effective to generate additional revenue in the current fiscal year.
  - iii. Request the City Attorney to report to Council with a methodology to enable the City to collect revenue legally owed from the Parking Occupancy Tax, including, but not limited to: Filing property liens for failure to pay a final tax assessment; and/or requiring repeat offenders to install parking revenue and control equipment.

- iv. Request the City Attorney to prepare and submit an ordinance to implement a convenience fee of \$2-3 to recover a portion of the transaction costs for business taxpayers paying by credit card online.
  - v. Request the City Attorney to prepare and submit an ordinance within 15 days to amend Subsection (f) of Section 21.15 of the LAMC; Subsections (a) and (e) of 5.175, Section 5.176 and Section 5.181 of the LAMC to increase the Director of Finance's authority to increase the fee charged for collection of delinquencies from the current flat rate of \$131 to a percentage-based fee of eight percent.
- k. Adopt the following recommendations to address issues contained in the Motion (Greuel - Smith) C. F. 08-0167:
- i. Instruct all departments to explore and report to Council in conjunction with the upcoming deliberations on the Mayor's 2008-09 Proposed Budget with potential opportunities to generate additional revenue through advertising and sponsorships.
  - ii. Instruct the Bureau of Street Services and the City Attorney to review department proposals for advertising and sponsorships to avoid conflicts with existing city programs.

## **FISCAL IMPACT**

Adoption of the recommendations contained in this report will partially offset the potential \$154.9 million year-end budget deficit by approximately \$117.3 million, leaving a year-end budget deficit of an estimated \$37.6 million. The current Reserve Fund balance is an estimated \$175.2 million (consisting of \$122 million in the Emergency Reserve Account and \$53.2 million in the Contingency Reserve Account).

GFM:SMT:LMO