

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0116-00001-0000

Date: December 15, 2008

To: Honorable Members of the Budget and Finance Committee
Attn: Lauraine Braithwaite, Office of the City Clerk

From: Raymond P. Ciranna, Interim City Administrative Officer *RPC*

Subject: **ADDENDUM TO THE THIRD FINANCIAL STATUS REPORT FOR FISCAL YEAR 2008-09 (C.F. 08-0600-S35)**

The CAO issued the Third Financial Status Report (FSR) on December 12, 2008 in which we reported that this Office was working on a new Five-Year Forecast model to account for the current economic volatility. Since the model previously used was based on the premise that revenues are consistent with the Adopted Budget, a new model is warranted. Attached is an updated forecast through Fiscal Year 2010-11, which reflects a projected deficit of \$432.9 million next fiscal year.

This addendum has been provided for information purposes only.

Attachments

RPC:MF:MDG:01090040d

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Three-Year Budget Forecast (\$ millions)

	2008-09 Budget	2008-09 Estimate	2009-10	2010-11
ESTIMATED GENERAL FUND REVENUE				
General Fund Base (1)	\$ 4,351.9	\$ 4,351.9	\$ 4,476.0	\$ 4,338.3
Revenue Growth (2)				
Property Related Taxes	25.0	15.0	(42.2)	15.0
Sales and Business Taxes	(18.0)	(48.0)	(23.4)	-
Utility Users' Tax	10.4	18.6	10.9	13.1
License, Permits and Fees	183.5	152.6	(97.0)	-
Other Fees, Taxes and Transfers	0.9	(14.1)	13.9	36.8
Total Revenue	\$ 4,553.7	\$ 4,476.0	\$ 4,338.3	\$ 4,403.3
<i>General Fund Revenue Increase %</i>	<i>2.6%</i>	<i>0.9%</i>	<i>-4.8%</i>	<i>1.5%</i>
<i>General Fund Revenue Increase \$</i>	<i>116.0</i>	<i>38.3</i>	<i>(215.4)</i>	<i>65.0</i>
<i>Revenue Shortfall</i>		<i>(77.7)</i>		
ESTIMATED GENERAL FUND EXPENDITURES				
General Fund Base (3)	\$ 4,437.7	\$ 4,437.7	\$ 4,567.4	\$ 4,771.2
Incremental Changes to Base: (4)				
Employee Compensation Adjustments (5)	120.5	120.5	101.9	65.7
City Employees Retirement System (6)	(26.2)	(26.2)	7.2	11.2
Fire and Police Pensions (6)	(2.1)	(2.1)	30.1	15.3
Workers Compensation Benefits (7)	7.5	7.5	10.8	11.6
Health and Dental Benefits (8)	29.7	29.7	44.4	42.3
Debt Service (9)	14.2	14.2	41.4	(7.0)
Expense CPI Increases (10)	-	-	6.6	6.7
Delete Reso. Authorities & One-Time Costs (11)	(103.2)	(103.2)	-	-
Unappropriated Balance (12)	16.5	16.5	-	-
New Facilities (13)	27.4	27.4	10.6	9.2
City Elections (14)	16.9	16.9	(16.9)	17.4
Police 1,000 Officers Hiring Plan (15a)	16.1	16.1	22.0	8.9
VLF Police Hires (15b)	19.1	19.1	-	-
Public Safety Systems Project (16)	3.2	3.2	-	-
CIEP (17)	11.2	11.2	37.1	1.3
Emergency Communications System (18)	3.5	3.5	-	-
Public Safety Radio Replacement (19)	-	-	-	-
Police In-Car Videos (20)	-	-	-	-
Appropriation to the Reserve Fund	14.8	14.8	-	-
Net - Other Additions and Deletions	(53.0)	(53.0)	-	-
2008-09 Budget Actions (21)				
2nd FSR Expenditure Shortfall		55.1		
Budget Balancing Report	-	(37.6)		
3rd FSR Expenditure Shortfall		(3.8)		
Remaining Budget Actions			(91.4)	
Subtotal Expenditures	\$ 4,553.7	\$ 4,567.4	\$ 4,771.2	\$ 4,953.8
<i>Expenditure Growth %</i>	<i>2.6%</i>	<i>2.9%</i>	<i>4.8%</i>	<i>3.8%</i>
<i>Expenditure Growth \$</i>	<i>116.0</i>	<i>129.7</i>	<i>217.5</i>	<i>182.7</i>
TOTAL BUDGET GAP	\$ -	\$ (91.4)	\$ (432.9)	\$ (550.6)

THREE YEAR GENERAL FUND BUDGET FORECAST FOOTNOTES

REVENUE:

(1) General Fund (GF) Base: The General Fund revenue growth is separated from the revenue base. This base excludes the Reserve Fund transfer to the budget.

(2) Revenue Growth: The 2008-09 revenue is adjusted in light of current economic conditions and based upon preliminary forecast in December 2008. Future year revenue projections have been revised to reflect the growing consensus among economists that the economy is in a long-term recession. Additionally, downward adjustments are likely depending on the length and severity of this recession. Amounts represent projected incremental change to the base. The reason for the decline in 2009-10 LPFF is primarily due to one-time revenues budgeted in 2008-09. Refer to the Revenue Outlook for detail of each revenue category.

ESTIMATED GENERAL FUND EXPENDITURES:

(3) Estimated Expenditure General Fund Base: Using the 2007-08 General Fund budget as the baseline year, the General Fund base is the "Total Obligatory and Potential Expenditures" carried over to the following fiscal year. The beginning 2009-10 base is assumed to be equivalent to the 2008-09 budget in anticipation that permanent ongoing reductions, rather than one-time solutions, are adopted.

(4) The 2008-09 incremental changes reflect funding adjustments to the 2007-08 General Fund budget. The 3-year forecast expenditures included for subsequent years are limited to those obligatory and major expenses known at this time and are subject to change. Amounts represent projected incremental change to the base.

(5) Employee Compensation Adjustments: This includes cost of living adjustment (COLA), change in number of working days, salary step and turnover effect, and full funding for partially financed positions. On Dec. 19, 2007, the Mayor and Council approved the 2007-2012 Memorandum of Understanding (MOU) for the Coalition of the Los Angeles City Union and Management Attorneys Unit. The approved COLAs are reflected in the chart below. Step increases that apply to all workers who have been on Step 5 for one year and to most flat-rated workers at the time of the increase will be effective January 1st of 2010, 2011, and 2012.

Civilian MOUs	2007-08	2008-09	2009-10	2010-11	2011-12
COLA	2% + 2%	3%	3%	2.25%	2.25%
Step/Increase			2.75%	2.75%	2.75%

Sworn labor contracts expire on 6/30/2009 and include the remaining COLA's of 3.75% on 7/1/2008. The forecast assumes a 1% salary growth each year for sworn employees beyond the current labor contracts.

(6) City Employment Retirement System (LACERS) and Fire & Police Pensions (Pensions): The LACERS and Pensions contribution are estimated based on information from the departments' actuaries and include COLA assumptions. The estimates are mostly driven by changes in assumptions and investment returns.

(7) Workers Compensation Benefits (WC): The WC budget increase of 8% is applied through 2012-13 based on 2007-08 experience.

(8) Health and Dental Benefits: Mercer Consulting provides the civilian plan forecast. Projected civilian employee FLEX benefits reflect medical subsidy increases of 9.19% for 2009; 8.71% for 2010; 8.23% for 2011; and 7.74% for 2012; as well as 1% annual increase for enrollment starting in 2010-11. Police and Fire health medical subsidy rates are historically higher and assumed to be 2% more than the civilian rates due to the type of coverage and lower deductible health plans. Police enrollment projections are consistent with the hiring plan. Fire enrollment is projected to rise 2% per annum.

(9) Debt Service: The debt service amounts include Capital Finance and Judgement Obligation Bond budgets. The Motorola lease payments for the Public Safety Radio Replacement and Police headquarters facilities debt service starts in 2009-10.

- (10) Expense CPI Increases: The CPI increases in 2008-09 and beyond are 2% per year.
- (11) Delete One-time Resolution Authorities and Other Costs: Reflects City practice of deleting programs and costs that are limited-term and temporary in nature at the start of the budget process. Funding for these positions, programs, and expenses is reviewed on a case-by-case basis and dependent upon continuing need for the fiscal year. Continued or new items added are embedded in the "Net – Additions and Deletions" line item of the forecast. None are deleted in subsequent years to provide a placeholder for continuation of resolution authority positions for various programs, as well as equipment, and other one-time expenses incurred annually. As such, these costs are therefore incorporated into the beginning General Fund base of subsequent years.
- (12) Unappropriated Balance (UB): The total 2008-09 UB budget is around \$16 million, including nearly \$3.5 million reflected in the New Facilities category. The balance is not eliminated to provide a placeholder for various ongoing and/or contingency requirements in the following years.
- (13) New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses that have not been prioritized.
- (14) Elections: Citywide elections occur bi-annually.
- (15a) The Police Hiring Plan is to recruit 1,000 net new officers during 2005-06 to 2009-10, with recruitment to cover attrition in 2010-11. Costs include salaries and expense.
- (15b) By the end of 2007-08, the VLF backfills funds originally used to finance additional Police costs will be depleted, but costs continue to be incurred. General Fund monies reflect backfill of the direct costs for those hired in prior years.
- (16) Public Safety Systems Project: The 2008-09 budget includes \$3.2 million in the Information and Technology Agency (ITA) for development of the systems component of the new Emergency Operations Center, Police Department Operations Center, and Fire Dispatch Center, including systems design, and design and engineering services related to the 911 phone system. The systems implementation is scheduled to be completed in 2010. The budget also includes nearly \$10 million in MICLA financing for the purchase and installation of the systems equipment.
- (17) Capital Improvement Expenditure Program (CIEP): The 2008-09 budget includes \$11 million for various capital projects. For future years, the CIEP amounts assume compliance with the policy of budgeting 1% of the General Fund for capital improvement projects.
- (18) Emergency Command Control Communications System (ECCCS): The 2008-09 budget provides \$3.5 million for the annual maintenance agreement and staffing of the Police 9-1-1 system. Funding is continued to provide a placeholder until future year projections are fully assessed and developed.
- (19) Public Safety Radio Replacement: Purchase of 9,300 handheld police (excludes Fire and GSD) radios is planned through a seven-year "lease to own" agreement. The annual lease payments will start in 2009-10 and are included in the Capital Finance Administration budget (see note 9, Debt Service).
- (20) Police In-Car Videos: The estimated total project cost for In-Car Video is \$28 million. Of this, \$5.5 million for Phase I was funded in 2007-08: \$5 million from the Unappropriated Balance and \$500,000 from LAPD's operating budget. The remaining \$22.5 million for Phases II to IV is proposed to be funded through a direct funding agreement with IBM, the vendor providing the system. Until these future phases actually move forward and the capital lease amount is determined for each phase, an estimate of future year costs cannot be provided. However, given the current timing of Phase I, the earliest we anticipate incurring capital lease costs is 2009-10.
- (21) 2008-09 Budget Actions: Assumes that entire 2008-09 Budget Gap will be solved through budget actions and that those actions will carry forward into subsequent General Fund Base.