

**TO THE COUNCIL OF THE
CITY OF LOS ANGELES**

Your **BUDGET AND FINANCE** Committee

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT MINORITY REPORT relative to the 2009-10 Budget Balancing Operational Plan.

Recommendations for Council action:

1. FIND that the Early Retirement Incentive Program (ERIP) as proposed for the Fiscal Year 2009-10 Budget, is not financially viable for the City of Los Angeles unless the Coalition agrees to generate an additional \$50 million to \$60 million and increase pension contribution by 1.9 percent; INSTRUCT the CLA to cull out the pertinent comments from the Joint CAO/CLA report that support the Minority Report.
2. AUTHORIZE the implementation of a mandatory furlough program effective September 28, 2009 as follows:
 - a. Close all City departments on the 2nd and 4th Friday of each month, where operationally feasible; and, assess the impact on City Council meetings and consider whether to hold Council meetings on Tuesdays, Wednesdays and Thursdays or cancel Council meetings on the 2nd and 4th Friday of each month.
 - b. Authorize a minimum of 26 furlough days between September 27, 2009 and June 30, 2010 for all non-Engineers and Architects Association (EAA) employees that received a cost of living increase in Fiscal Year 09-10.
 - c. Authorize a minimum of 18 furlough days between September 27, 2009 and June 30, 2010 for all employees that did not receive a cost of living adjustment in Fiscal Year 09-10.
 - d. Instruct General Managers to implement work schedules and schedule the furlough days so that it will minimize disruption to services, not impact employee benefits, and not violate the provisions of Fair Labor Standards.
 - e. Instruct the City Administrative Officer (CAO) to negotiate the impact of the furlough program with the impacted civilian unions as soon as practicable.
3. APPROVE the service level and reduction of 926 employees as identified in the joint CAO/Chief Legislative Analyst (CLA) Report Attachment 2 (attached to this Committee report).
4. INSTRUCT the Personnel Department to calculate all necessary layoffs through September 26, 2009.

5. INSTRUCT the General Managers to identify the number and classification of employees within the same service category or program required to be laid off to achieve the operational plan savings, and submit the list to the Personnel Department within 48 hours of the adoption of this report.
6. AUTHORIZE the CAO and Controller to freeze in PAYSr, all positions identified for layoff by the General Managers.
7. REQUEST the Mayor, as part of the proposed Fiscal Year 2010-11 budget to eliminate all positions frozen by the CAO and Controller.
8. INSTRUCT the Controller to implement the deferred cost of living increases for the following bargaining units: MOU's 02, 03, 04, 05, 06, 07, 09, 10, 11, 12, 13, 14, 15, 16, 18, 29, 32, 34, 36, 37 retroactive to July 1, 2009.
9. INSTRUCT the CAO to convene a working group comprised of the CAO, CLA, Personnel and Controller to monitor the progress and cooperation of the departments implementation of the operational plans and report to the Budget and Finance Committee monthly.
10. INSTRUCT General Managers to work with the Personnel Department and CAO to identify placement opportunities for employees at risk of layoff.
11. INSTRUCT the Personnel Department to work with the City's Employee Assistance Program provider to develop programs to assist employees at risk of layoff.
12. INSTRUCT the CAO to develop a cash based separation incentive program that is targeted to the classifications at risk of layoff and report back to the Budget and Finance Committee.
13. INSTRUCT the City Attorney to amend the emergency declaration to delineate the City's worsening fiscal condition and to provide for the furlough of sworn personnel.
14. INSTRUCT the CAO and CLA to report back to the Budget and Finance Committee relative to Police and Fire sworn Shared Responsibility and Sacrifice (SRS) shortfalls identified in the Joint CAO/CLA report. The CAO/CLA report should identify options to address the budget shortfalls if the ERIP is approved by the Council.
15. INSTRUCT all Departments to submit to the CAO their operational plans that include hours of operation, service level changes, and any other pertinent information upon Council adoption of the 2009-10 Budget Balancing Operational Plan.
16. INSTRUCT the CAO and CLA to work with the following departments to evaluate alternative budget reduction proposals, provided that the same budgetary savings are achieved to the extent possible: Animal Services, City Clerk, El Pueblo, Finance, Fire, General Services, Information Technology Agency, Neighborhood Empowerment, Police, Board of Public Works, Bureau of Engineering, and Transportation.
17. EXCLUDE the following Departments, to the extent possible, from further funding reductions in 2010-11: Recreation and Parks, Library, Convention Center and Housing Departments.

18. INSTRUCT the CAO to reevaluate CAO/CLA Attachment 2 recommendation #197 relative to closure of the West Los Angeles District Office of the Bureau of Engineering and reassignment of eight positions to special funded programs, and report back to the Budget and Finance Committee.

Fiscal Impact Statement: The CAO/CLA report that adoption of the above recommendations will reduce the potential budgetary gap of \$405 million.

Community Impact Statement: None submitted

SUMMARY

At its meeting of September 14, 2009, the Budget and Finance Committee considered a joint CAO/CLA report relative to the 2009-10 Budget Balancing Operational Plan. The CAO and CLA were instructed by the Budget and Finance Committee to prepare a citywide operational plan to begin addressing the City's anticipated budget shortfall, and to report on labor negotiations and any other actions necessary to balance the 2009-10 Budget. The report provides an overview of the City's current financial status; an analysis of how proposed actions being considered by the Mayor and Council would address the City's current financial status; and, contains recommended actions to begin addressing the anticipated gap in the City's 2009-10 Budget.

During the Committee discussion, the Mayor's Budget Director reported that based on current information and the information contained in the Joint CAO/CLA report dated September 11, 2009, the Mayor can no longer support the proposed ERIP or the agreement with the Coalition of Unions. The Joint CAO/CLA report identifies the following changes in ERIP costs/benefits:

- Payroll savings - since delays in implementing ERIP have occurred, it is anticipated that only an average of four months savings will be achieved during the current fiscal year. According to the ERIP Savings Analysis chart, at four months of payroll savings, ERIP is anticipated to save approximately \$23 million across all funds, a difference of \$88 million less than the \$111 million originally anticipated.
- Budgetary Shortfall Solutions - the City Attorney has recently opined that the City Charter prohibits Management from permanently transferring employees between different appointing authorities without their prior consent. Therefore, ERIP savings from special and proprietary department funds will not translate to General Fund savings as previously assumed. The CAO/CLA now estimates that only 53% of ERIP savings, or \$12 million of the \$23 million above, could be counted towards addressing the General Fund problem. This is a difference of \$73 million less than the \$85 million originally anticipated.
- Cost Neutral - a comparison of the completed actuarial study, dated July 30, 2009, and present value analysis of the employee payback indicates that the increase in employees' contribution rate will not be sufficient to offset added costs related to ERIP. The employee payback of the increased employee contribution rate of 0.75% and elimination of the City's subsidy for the Defrayal Group does not cover the entire Unfunded Actuarial Accrued Liability (UAAL) increase in cost.
- Legal Challenges - legal challenges to the increase in employee pension contributions are

expected. The City Attorney should brief the Council in Closed Session on the basis for and validity of these challenges.

Councilmember Smith stressed the need for the Council to take action on the ERIP on September 15th inasmuch as there currently is a \$50 - 60 million shortfall in the civilian SRS; the CAO reports that the City is overspending at a rate of \$11 million per payperiod or \$1 million per day. The CAO and CLA stressed during the Committee discussion that approval of ERIP and the agreement with the Coalition of Unions would severely limit the Council's ability to address remaining budget shortfalls inasmuch as 22,000 Coalition members would not be subject to either furloughs or layoffs; therefore the remaining personnel option to address shortfalls would be shared among sworn personnel and remaining non-Coalition members.

Following a lengthy discussion including public comment, the Committee voted 3-2 to submit the recommendations of the CAO/CLA without recommendation. Councilmembers Huizar, Koretz and Rosendahl, in a Majority Report, recommended that the CAO continue negotiations with the Coalition of Unions through the evening to address impediments discussed in the joint CAO/CLA report. The CAO was further instructed to report to Council on September 15, 2009 on the outcome of these discussions so that the Council may consider these discussions in order to take action on ERIP.

Councilmembers Parks and Smith, in a Minority Report, recommended that the Council make a finding that the ERIP as proposed for the Fiscal Year 2009-10 Budget, is not financially viable for the City of Los Angeles unless the Coalition agrees to generate an additional \$50 million to \$60 million and increase pension contribution by 1.9 percent. Councilmembers Parks and Smith further recommended approval of the remainder of the CAO/CLA recommendations relative to implementation of a mandatory furlough program effective September 28, 2009. Additional recommendations made as part of the Minority Report are reflected in this Committee report. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
SMITH:	YES

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