

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: October 19, 2009

TO: Antonio R. Villaraigosa, Mayor
Eric Garcetti, President, City Council
Bernard Parks, Chair, Budget and Finance Committee

FROM: Wendy Greuel, City Controller *WJ Greuel*

SUBJECT: BUDGETARY CASH FLOW

As we enter the second quarter of a particularly challenging fiscal year, I want to keep my commitment to providing you with information on the City's cash flow issues, particularly as it relates to salaries, the largest component of the City's budget. As you know, the 09-10 Budget appropriated \$2,737,513,125 for salaries. Based upon expenditures from the first six pay periods, if similar expenditures were to continue throughout the year, the City could expend \$2.977 billion on salaries which could be \$239 million above budget. At this time salary expenditures appear to be trending down.

Attachment 1 is a view of all of the salary accounts based upon the adopted budget. To end the year within the adopted salary budget (\$2.737 billion) our bi-weekly salary expenditure should average \$103.9 million throughout the year. Actual payments for Pay Periods 2, 3, 4, 5 and 6 were \$114.5, \$115.1, \$111.9, \$114.1 and \$111.9 million, on average \$10 million per pay period (a total of \$49.7 million) above where we should be based upon the budget but with a decided downward trend. If this continues throughout the year, the City will exceed the salary budget by \$200 to \$250 million, roughly \$54 million less than our September letter on this subject.

The attached salary projection is based upon certain salary assumptions. (Assumptions include continued furlough of EAA represented classifications, Fire Department expenditures will remain at their current reduced level, future salary expenditures citywide will average between \$112 and \$114 million over the remainder of the year, no assumptions on cost savings or cost increases from implementing a retirement incentive or layoff program, and no assumptions on police, fire or Coalitions of Unions salary increases.) The outcome of the bargaining units' vote on the proposed early retirement program by week's end will most assuredly change the assumptions and the projections but the information we have today can shed light on the financial realities facing the City and be instrumental in making necessary budget related decisions.

CITY OF LOS ANGELES
FISCAL OFFICE

While furloughs are occurring for EAA units now and no salary increases are in place for the Coalition of Unions – both of which result in reduced expenditures - no retirement program and/or large scale layoffs have been approved for implementation to date. Therefore, savings from an early retirement program (ERIP), if approved, may not be realized until early November. Rejection of the ERIP may also negatively impact the city's bottom line and leave us with limited options to reduce our ongoing salary expenses.

Our cash flow and projections are only as good as the decisions upon which they are based. Recognizing that salaries account for over 80% of our budget, it is clear that salary expenditures must be reduced in order to put our fiscal house in order.

As you consider the options and alternatives for balancing this year's budget, I wish to express a concern about Reserve Fund cash at fiscal year end. The City's Reserve Fund policy targets a Reserve Fund of 5% of General Fund revenues, approximately \$220 million this year. The Government Finance Officers Association (GFOA) recommends a Reserve Fund of 5% to 15% of General Fund revenues or 1 to 2 months of operational expenditures, in the City's case approximately \$250 to \$500 million. A reserve fund is used for emergency expenditures (situations like the Northridge Earthquake or the New Orleans flood), to meet cash flow requirements where expenditures do not match revenues (City expenditures are fairly even throughout the year but more revenue is received in the second half of the year), to meet expenditure needs where revenue is delayed by actions of others (State budget crisis), or to help stabilize the City during economic uncertainties. However, once depleted the Reserve Fund will take a long time to refill. As I stated in my Preliminary Financial Report I support using some but not all of the Reserve Fund as part of a plan to bring expenditures in line with the budget and revenue. I do not support depleting the Reserve Fund to maintain staffing levels this year and face more challenging issues next year.

I recognize as Controller and as a former member of the City Council that we are faced with difficult decisions. However, the longer it takes to make decisions the more difficult those decisions become, and the deeper the budgetary cuts will have to be. The information I am providing you today is based upon payroll payments made through September 23, reflecting work performed through September 12. Practically speaking, we have completed two additional pay periods, incurred an additional obligation which, when paid will add approximately \$18 million to our actual deficit increasing it to \$67 million from \$49.7 million.

cc Miguel A. Santana, City Administrative Officer
Gerry F. Miller, Chief Legislative Analyst

City of Los Angeles
Salary Expenditure Projections Based Upon Salary Account Pro-Rated Across 26 Pay Period
Budget FY 2008-09

Date	Fire	Police	Total		Pay Period		Cumulative Actual Total	Projected		Cumulative Projected Total 2,737,513,125	Variance
			Sworn	Civilian	Total	Total / Period					
FY 2008-09 Budget											
7/1/09	--	--	--	--	--	--	--	--	--	--	--
7/15/09	5,659,633	13,060,686	18,720,319	18,346,466	37,066,785	Actual	37,066,785	35,984,000	35,984,000	(1,082,785)	Actual
7/29/09	17,606,876	40,870,382	58,477,258	56,001,187	114,478,445	Actual	151,545,230	103,914,000	139,898,000	(11,647,230)	Actual
7/29/09	--	10,174,514	10,174,514	--	10,174,514	a	161,719,744	9,490,000	149,388,000	(12,331,744)	Actual
8/12/09	19,890,950	39,101,449	58,992,399	56,130,510	115,122,909	Actual	276,842,653	103,914,000	253,302,000	(23,540,653)	Actual
8/26/09	16,826,155	39,368,891	56,195,046	55,678,194	111,873,240	Actual	388,715,893	103,914,000	357,216,000	(31,499,893)	Actual
9/9/09	18,664,155	38,976,468	57,640,623	56,456,077	114,096,700	Actual	502,812,593	103,914,000	461,130,000	(41,682,593)	Actual
9/23/09	16,685,775	38,967,848	55,653,623	56,228,317	111,881,940	Actual	614,694,533	103,914,000	565,044,000	(49,650,533)	Actual
10/7/09					114,000,000	Estimate	728,694,533	103,914,000	668,958,000	(59,736,533)	Estimate
10/21/09					112,000,000	Estimate	840,694,533	103,914,000	772,872,000	(67,822,533)	Estimate
11/4/09					114,000,000	Estimate	954,694,533	103,914,000	876,786,000	(77,908,533)	Estimate
11/18/09					112,000,000	Estimate	1,066,694,533	103,914,000	980,700,000	(85,994,533)	Estimate
12/2/09					114,000,000	Estimate	1,180,694,533	103,914,000	1,084,614,000	(96,080,533)	Estimate
12/16/09					112,000,000	Estimate	1,292,694,533	103,914,000	1,188,528,000	(104,166,533)	Estimate
12/30/09					114,000,000	Estimate	1,406,694,533	103,914,000	1,292,442,000	(114,252,533)	Estimate
1/13/10					112,000,000	Estimate	1,518,694,533	103,914,000	1,396,356,000	(122,338,533)	Estimate
1/13/10					12,000,000	b	1,530,694,533	11,674,000	1,408,030,000	(122,664,533)	Estimate
1/27/10					114,000,000	Estimate	1,644,694,533	103,914,000	1,511,944,000	(132,750,533)	Estimate
2/10/10					112,000,000	Estimate	1,756,694,533	103,914,000	1,615,858,000	(140,836,533)	Estimate
2/24/10					114,000,000	Estimate	1,870,694,533	103,914,000	1,719,772,000	(150,922,533)	Estimate
3/10/10					112,000,000	Estimate	1,982,694,533	103,914,000	1,823,686,000	(159,008,533)	Estimate
3/24/10					114,000,000	Estimate	2,096,694,533	103,914,000	1,927,600,000	(169,094,533)	Estimate
4/7/10					112,000,000	Estimate	2,208,694,533	103,914,000	2,031,514,000	(177,180,533)	Estimate
4/21/10					114,000,000	Estimate	2,322,694,533	103,914,000	2,135,428,000	(187,266,533)	Estimate
5/5/10					112,000,000	Estimate	2,434,694,533	103,914,000	2,239,342,000	(195,352,533)	Estimate
5/19/10					114,000,000	Estimate	2,548,694,533	103,914,000	2,343,256,000	(205,438,533)	Estimate
6/2/10					112,000,000	Estimate	2,660,694,533	103,914,000	2,447,170,000	(213,524,533)	Estimate
6/16/10					114,000,000	Estimate	2,774,694,533	103,914,000	2,551,084,000	(223,610,533)	Estimate
6/16/10				c	4,111,000	Estimate	2,778,805,533	4,111,000	2,555,195,000	(223,610,533)	Estimate
6/30/10					112,000,000	Estimate	2,890,805,533	103,914,000	2,659,109,000	(231,696,533)	Estimate
Yr-end Encumbrance					85,729,000	Estimate	2,976,534,533	78,404,000	2,737,513,000	(239,021,533)	Estimate
Total	95,333,544	220,520,238	315,853,782	288,840,751	2,976,534,533			2,737,513,000			

a Uniform allowance
b Excess sick time
c Bank overtime

City of Los Angeles
Engineers and Architects Associations (EAA)
Furlough Savings

Pay Period	Date Paid	General Salary Savings ⁽²⁾	Rec & Parks
			Library Savings ⁽¹⁾
1	15-Jul-09	N/A	N/A
2	29-Jul-09	\$ 1,981,486	\$ 77,014
3	12-Aug-09	1,976,548	77,068
4	26-Aug-09	1,963,153	76,228
5	9-Sep-09	1,980,428	77,014
6	23-Sep-09	1,966,771	75,968
Total Savings		<u>\$ 9,868,386</u>	<u>\$ 383,292</u>

⁽¹⁾ Recreation and Parks and Library salaries are not paid through the General Fund.

⁽²⁾ The salary account is funded by the General Fund and Special Purpose Funds. It is not possible to track each source of funds, but approximately 33% of salaries are attributable to Special Purpose Funds. At the end of pay period 6, General Fund savings are approximately \$6,611,819 and Special Purpose Funds savings are \$3,256,567.

Since, Special Purpose Fund salaries are tied to specific requirements, any "salary savings" will be offset by reduced revenue from the source funds.